

INTRODUCTION

QUESTIONS AND ANSWERS

Question 1: What is Real Estate? What does it mean to obtain a Real Estate license?

Answer: Real Estate is Land, what's attached to it permanently, the air space above it and the subsurface underneath such as water, oil and gas, other minerals, etc.

A license enables you to collect compensation for:

1. Negotiating for the sale or purchase of property.
2. Managing property, including locating tenants for empty space and rent collection.
3. Negotiate for construction and development of property.
4. The sale of businesses including the name, goodwill, and equipment associated with the sale of the business.

Question 2: Who issues the license?

Answer: The Department of Licensing & Regulatory Affairs (The Department i.e. LARA) will issue a license after verifying that you have met licensing requirements such as attending class, passing the state test, filing the proper application for license with the fee.

Question 3: Do I work alone or does someone else supervise me?

Answer: You will probably be an independent contractor and set your working hours on your own but you need an employing broker to provide you supervision.

Question 4: Is there a difference between a salesperson and a Broker and are there any other levels of licensing available in the Real Estate industry?

Answer: The state gives two different types of tests--one for a salesperson and another for a Broker.

1. A Broker is a person who has had enough experience and education and who has passed the Broker's test to become a Real Estate Broker. This person does not need "supervision" by another broker. S/he can operate his/her own practice and hire salespeople to work for him/her. **ALL DECISIONS AND POLICY ARE MADE BY THE BROKER.**
2. A salesperson must be employed by a Broker who will supervise his/her activities.
3. As far as negotiating transactions, both Salespersons and Brokers can conduct the same activity. However, the Broker has more responsibilities as far as record keeping, closings, and an overall supervision of the operation. If another Broker employs a Broker, the broker must obtain an "Associate Broker" license.

INTRODUCTION

Question 5: How do I exactly work and get paid?

Answer:

1. All business is conducted in the name of the Broker.
2. After conducting a service, compensation is paid to the Broker who will then pay the salesperson a portion of that compensation. This is known as the "split".
3. The commission split may vary from one Broker to another based on what the Broker provides for the salesperson such as an office, clerical help, advertising, etc.
4. Although a salesperson usually works as an independent contractor, sometimes s/he may be hired as an employee.

Example: An owner calls you to help her sell property. You visit the property, analyze its value and ask her to sign an employment contract (listing agreement) in order to officially employ your company to sell. When property is sold, owner pays Broker directly, then Broker pays you a portion of the money (unless, of course, you were on salary or wages which is less common than being on a commission split). The bottom line is that the Broker and nobody else can pay the salesperson.

Note: Earning a commission – If a listing agreement indicates that the broker earns a commission if s/he provides a **buyer willing, able and ready to buy**, then a broker who procures a "mirror offer" i.e. full price and terms has earned a commission.

Question 6: How does cooperation with other Brokers take place?

Answer: After a property has been listed, your company may be contacted by a competing real estate company indicating they have a buyer for your listing and asking if your company will cooperate and split fees with them. (There is no need to ask if a company cooperates as long as both are members in the same **Multiple Listing Service** where Brokers invite cooperation through a computerized network.) If your company cooperates and the competing company brings a buyer and the deal is closed, your company is paid by the seller and in turn will pay a commission split to the selling company.

Example: As a salesperson with Sunshine Realty you list a house and try to sell it. The sales associates in your company also try to no avail. Eventually a salesperson from Green Valley Realty calls you and says that they have a buyer who would like to look at your listing. Your company decides to cooperate with the competition. Assuming a 50/50 split between your company and the competing company, a 50/50 split between you and your Broker, and providing that the seller has agreed to pay an \$8,000 commission to your company, your Broker (listing broker) will receive an \$8,000 commission from the seller and immediately pay \$4,000 out of it to Green Valley Realty (selling broker). The Broker in Green Valley Realty who is also on a 50/50 split with his salesperson (selling salesperson) will retain \$2,000 and pay the salesperson \$2,000. Your Broker will retain \$2,000 and pay you (listing salesperson) \$2,000. Should this property have been sold by you, your Broker would have kept the \$8,000 commission and given you \$4,000 out of it (\$2,000 for listing the house and \$2,000 for selling it) and your Broker would have kept \$4,000. If this house is sold by another salesperson working for your Broker, then your Broker would keep \$4,000 and pay you \$2,000 for listing the house and pay the other salesperson \$2,000 for selling it. Remember that all commissions charged to the clients, as well as commission splits, are negotiable and not set by anyone other than the parties involved.

Note: Although a broker is not required by law to cooperate, s/he could be disciplined by the Department if s/he indicated or implied to the seller that s/he in fact would, and later refused.

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Question 7: What if the house does not sell?

Answer: There are no guarantees given and the listing agreement usually promises a fee if a buyer has been procured. But, if a buyer is not found before expiration of listing agreement, no fee is paid. For this reason, and in the interest of expediting the sale, it is a good idea for the listing broker to cooperate.

Question 8: What is the reason for establishing licensing rules? What law regulates the real estate industry in Michigan?

Answer: Real estate professionals are regulated for “**consumer protection**”. The law that sets all rights and obligations of licensees is the “**Michigan Occupational Code**”. It provides for the following:

1. Establishes the powers and duties of the Department of Licensing & Regulatory Affairs (the Department) and creates a **Board** for each occupation.
2. Provides for certain rules, fees, and fines.

Example of consumer protection:

1. All listing agreements must have an anti-discrimination clause and a definite expiration date
2. Brokers must keep buyer's deposit in a separate trust account.
3. Signed offers must be promptly presented to seller.
4. Agents must recommend title insurance to the buyer, etc.

Question 9: How long is the license good for and are there any temporary or permanent licenses?

Answer: Licenses expire on October 31st of a 3-year renewal cycle. No permanent licenses are issued. A TEMPORARY LICENSE may be issued at the sole discretion of the Department such as in the case of a license transfer.

DESCRIPTION OF EXAMINATION

DESCRIPTION OF EXAMINATIONS

EXAMINATION SUMMARY TABLE

Examination	# of Questions	Passing % Score	Passing Raw Score	Time Allowed
Salesperson	115 (115 points)	70	80	180 minutes
Broker	115 (120 points)	75	90	210 minutes

Note: National broker exams include questions that are scored up to two points.

EXPERIMENTAL QUESTIONS

A small number of “experimental” questions (i.e., 5 to 10) may be administered to candidates during the examinations. These questions will not be scored and the time taken to answer them will not count against testing time. The administration of such unscored, experimental questions is an essential step in developing future licensing exams.

SAMPLE BROKER QUESTIONS (SCENARIO-BASED)

Scenario:

You are hosting an open house. Mr. and Mrs. Charles Martin come into the house. You greet them and show them the house. The Martins tell you the house is exactly what they are looking for and they are very interested in purchasing it. You then give them information showing the various types of financing available with down payment options and projected payments.

Mr. Martin tells you they have been working with Mary Hempstead of XX Realty, a competing real estate company. Before leaving, you thank them for coming and give them your business card.

- A. The first thing on Monday morning, Mrs. Martin calls and indicates they have tried to reach Mary and cannot. They indicate they have a written buyer’s agent agreement with Mary’s broker. They are afraid someone else is going to buy the house. Which of the following should you do? Select the best answer.
1. Seek advice from your supervising broker.
 2. Tell them to come to your office.
 3. Ask them to bring the buyer’s agency agreement to you for your interpretation.
 4. Tell them to be patient and continue trying to reach Mary.
 5. Tell them to call Mary’s supervising broker or branch manager.
 6. Tell them you are really sorry, but there is nothing you can do.

- B. The Martins come to your office and explain that neither Mary nor her supervising broker are available. They insist you immediately write an offer for the house. How should you proceed? Select the best answer.
1. Write the offer after entering into a buyer’s broker agreement with them.
 2. Write the offer after explaining they may owe Mary’s broker a commission.
 3. Write the offer after trying to contact Mary’s broker yourself.
 4. Refuse to write an offer and explain that doing so would be unethical.
 5. Refuse to write and offer since it would be illegal.
 6. Refuse to write the offer and tell the Martins to contact another Salesperson in Mary’s office.

Answers (Points) to Sample Broker Questions:

- A. 1 (2 points), 2 (1 point), 3 (0 point), 4 (0 point), 5 (1 point) , 6 (0 point);
- B. 1 (1 point), 2 (2 points), 3 (1 point), 4 (0 point), 5 (0 point) , 6 (0 point);

PROPERTY OWNERSHIP

Property Ownership (Salesperson 6 items/Broker 7 items)

- A. Real versus personal property; conveyances
 - B. Land characteristics and legal descriptions
 - 1. Types of legal descriptions; Metes and bounds, Lot and block, government survey
 - 2. Measuring structures
 - 3. Livable, rentable, and usable area
 - 4. Land Measurement
 - 5. Mineral, air, and water rights
 - C. Encumbrances and effects on property ownership
 - 1. Liens
 - 2. Easements and licenses
 - 3. Encroachments
 - 4. Other potential encumbrances of title
 - D. Types of ownership
 - 1. Tenants in common
 - 2. Joint tenancy
 - 3. Common- interest ownership Timeshares
 - 4. Condominiums Co-ops
 - 5. Ownership in severalty/sole ownership Life Estate ownership
 - 6. Property ownership held in trust (**BROKER ONLY**)
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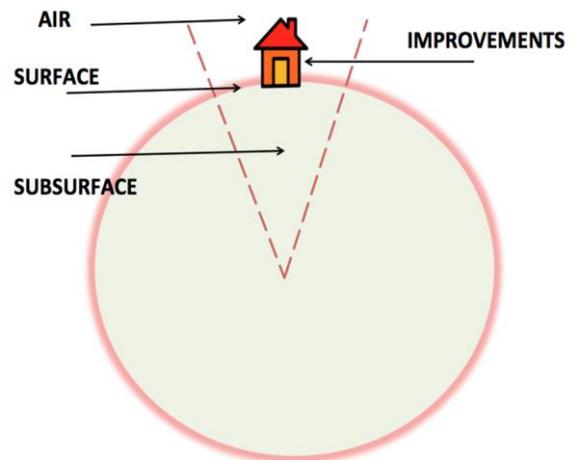
1. CLASSES OF PROPERTY

A - REAL VERSUS PERSONAL PROPERTY

1. REAL PROPERTY:

- A. Land
- B. Improvements on the land
- C. Plants and trees
- D. Air space above
- E. Subsurface rights
- F. Water-related rights
- G. Anything attached permanently to the land

Seller may sell all rights or reserve a portion such as reserving mineral rights.



2. PERSONAL PROPERTY [CHATTEL]

- A. Movable goods on real property such as furniture, free standing appliances, etc.

1B- DEFINING FIXTURES

FIXTURES: Items that were once personal property (chattel) but are now attached to land permanently and are considered Real Estate.

PROPERTY OWNERSHIP

Example: Mobile home located on land is chattel, but once installed on permanent foundation after removing wheels it becomes a fixture and may be sold with real estate license.

Trade Fixtures: Personal property used in the operation of a business such as a cooler, cash register, shelving, etc. are not to be confused with the word 'fixture' which is real estate.

SEVERANCE: The act of detaching a fixture from real estate turning it once again to chattel.

HOW TO DETERMINE IF AN ITEM IS CHATTEL OR A FIXTURE

1. METHOD OF ATTACHMENT AND RELATION:

A. Items attached by cement and/or nails and removal will damage property.

Example:

A  bookshelf = Chattel

A  bookshelf = Fixture

B. Item fits as part of the house although removed at times such as the door keys, storm doors and windows.

PLANTINGS:

A. ANNUAL PLANTINGS (CROPS, EMBLEMENTS): Are personal property. They require annual cultivation, such as corn and wheat.

B. PERENNIAL PLANTINGS: Are real estate. They continue to grow not requiring annual planting, such as trees and shrubs.

2. AGREEMENT BETWEEN THE PARTIES:

A. Seller allows personal item to be included with sale such as appliances.

B. Purchaser agrees that an item, although attached, may be excluded from sale, such as a chandelier.

3. INTENTION OF THE PARTIES:

A. Item attached with screws and nails for a purpose other than improving property.

B. Example is trade fixtures (such as shelving in a grocery store, equipment, etc.) are personal property although sometimes attached to Real Estate.

✓ ONCE AN ITEM IS DETERMINED TO BE A "FIXTURE", IT IS AUTOMATICALLY INCLUDED IN THE SALE OF THE REAL ESTATE UNLESS SPECIFICALLY EXCLUDED IN WRITING.

B- TYPES AND USAGE OF LEGAL PROPERTY DESCRIPTIONS

LEGAL DESCRIPTION: A description of real property that gives the exact location and boundary anywhere in the world.

PROPERTY OWNERSHIP

METHODS OF LEGAL DESCRIPTION

1. METES AND BOUNDS (Measures BOUNDARIES)

- A. Property is described through a series of distances and angular measurements.
- B. The description always starts at a point called “point of beginning” (P.O.B.) and always ends at the same POB, traveling certain distances at certain directions such as east west, southeast, etc.
- C. As evidence of boundary, the Surveyor establishes a “monument” as physical evidence of property lines and corners. Monuments may include wood stakes, metal rods, concrete blocks, existing trees and fences, water streams, etc.
- D. **Example:** Beginning at the intersection of the west line of Southfield Rd. and the south line of Ten Mile Rd. then south on the west line of Southfield Rd. 650 feet; then west 20 degrees south 350 feet more or less to the center thread of Swartz Creek then southeasterly along the center line of the said Creek 450 feet more or less to its intersection with the north line of Queens Rd. then east 280 feet to Southfield Rd. then north 720 feet to the point of beginning.
- E. Angular measurements are given in terms of so many degrees. Every degree consists of 60 minutes and every minute consists of 60 seconds.

2. LOT- BLOCK – SUBDIVISION METHOD - Regulated under the Michigan land division Act

This description identifies properties by reference to a subdivision plat filed by the developer with the county register of deeds office.

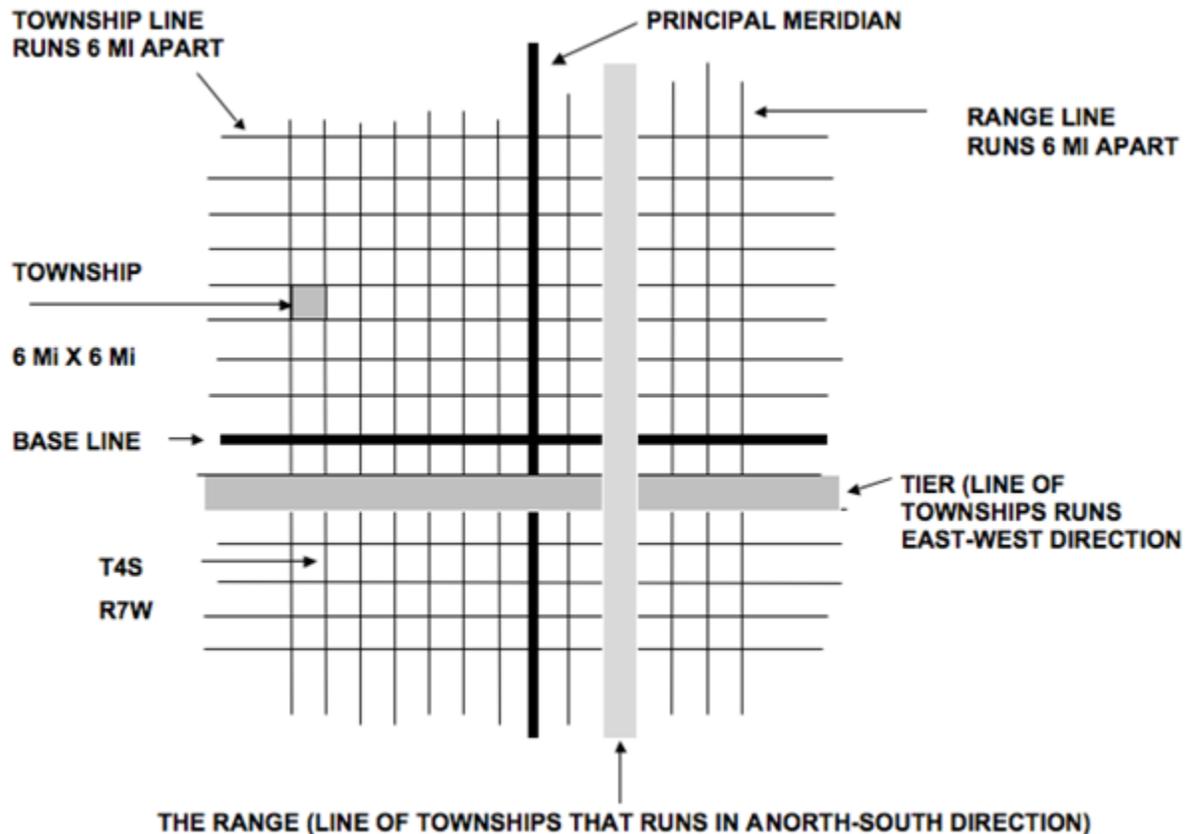
CREATION OF A SUBDIVISION

- A. A developer locates some raw land that may be suitable for subdividing into smaller lots to be sold independently.
- B. An area of land is designated as a block, and the area making up the block is divided into lots.
- C. A detailed plan is submitted to the **local authority** such as the planning commission for approval. **Zoning ordinances** must also be checked and complied with. Such plan contains:
 - 1. Existing and proposed features affecting the lots as well as land use which should match the legal use allowed by the government.
 - 2. Drainage, sewer, utilities and easements.
 - 3. Building locations.
 - 4. Roads and drives.
 - 5. Lot sizes that are established with the help of surveyors.
 - 6. Plat map showing location and boundaries of individual properties.
 - 7. Upon government approval, the plat is filed at the county register of deeds office showing certain areas that are set aside for streets as dedicated, i.e. belonging to the government. Undedicated streets are private and will not be maintained by the County Road Commission.

PROPERTY OWNERSHIP

3. THE GOVERNMENT RECTANGULAR SURVEY SYSTEM

- A. BASE LINES (Latitude lines):** Imaginary lines running East-West every 24 miles. In Michigan we use ONE PRINCIPAL BASE LINE ONLY (coincides with 8 Mile Road in Detroit).
- B. MERIDIAN LINES (Longitude lines):** Imaginary lines running North-South every 24 miles and intersects with the BASE lines forming a parcel of land that is 24 miles by 24 miles called a CHECK. In Michigan we use ONE PRINCIPAL MERIDIAN LINE ONLY starting from the Sault Ste. Marie and running perpendicular to the Base Line.
- C. RANGE LINES:** Imaginary lines running every 6 miles parallel to the Principal Meridian.
- D. TOWNSHIP LINES:** Imaginary lines running every 6 miles parallel to the Principal Base line.
- E. TOWNSHIP:** A parcel of land, 6 miles by 6 miles in size, resulting from intersection of Range lines and Township lines. Each township contains 36 square miles or **SECTIONS**.
- F. SECTION: 640 ACRES:** numbered in a township from 1 to 36.
- G. ACRE: 43,560 SQUARE FEET**
- H. RANGE:** A line of townships running North-South
- I. TIER:** A line of townships running East-West
- J. Townships are identified by their location against the Base and Meridian lines.**



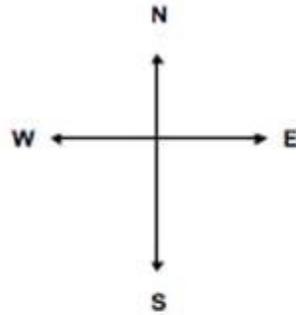
PROPERTY OWNERSHIP

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

1 TOWNSHIP = 36 SQUARE MILES
1 SQUARE MILE = 1 SECTION
1 SECTION = 640 ACRES
1 ACRE = 43,560 SQUARE FEET
1 MILE = 5280 FT

1 TOWNSHIP

NW ¼		W½ OF NE ¼	E½ OF NE ¼	
160 ACRES		80AC	80AC	
40AC NW¼ OF SW¼	40AC NE¼ OF SW¼	40AC	40AC	
SW¼ OF SW¼	SE¼ OF SW¼	40AC		



← NE¼ SE¼ SE¼ (10AC)

1 SECTION

PROPERTY OWNERSHIP

Example 1: A parcel of land 242ft by 450ft was sold for \$50,000. What was the price per acre?

Solution:

Step 1: $242\text{ft} \times 450\text{ft} = 108,900 \text{ sq.ft.}$

Step 2: $108,900 \text{ sq. ft} \div 43,560 \text{ (acre)} = 2.5 \text{ acres}$

Step 3: $\$50,000 \div 2.5 \text{ acres} = \mathbf{\$20,000/acre}$

Example 2: A company has 20,000 square feet of land. They need 4 times as much space for a new project. What is the minimum amount of acreage they need to complete the project?

- A. 1 acres
- B. 2 acres
- C. 3 acres
- D. 4 acres

Solution:

$20,000 \text{ sq. ft.} \times 4 = 80,000 \text{ sq. ft.}$

$80,000 \text{ sq. ft.} \div 43,560 \text{ sq. ft.} = 1.8 \text{ acres}$

They need at least 2 acres (B)

REVIEW QUESTIONS

Q – 1 How many acres are there in a parcel 400ft by 871.20ft? Half Acres?

Q – 2 A parcel sold for \$65,500 and it measures 450' by 644'. What is the price per acre?

Q –3 How many acres in the NW $\frac{1}{4}$ OF SE $\frac{1}{4}$ OF SW $\frac{1}{4}$ OF SECTION 23?

Q –4 How many acres in the N $\frac{1}{2}$ OF SE $\frac{1}{4}$ OF SE $\frac{1}{4}$ OF SE $\frac{1}{4}$ OF SECTION 7?

Q –5 Bob bought $\frac{1}{4}$ of a section and divided it into parcels 20 acres each. How many parcels did he get?

ANSWERS

1. $400 \times 871.20 = 348,480 \text{ Square Feet}$
 $348,480 \div 43,560 = 8 \text{ Acres}$
To find half acres, multiply 8 acres $\times 2 = 16 \text{ half acres}$
2. $450 \times 644 = 289,800 \text{ Square Feet}$
 $289,800 \text{ sq ft} \div 43,560 = 6.65 \text{ Acres}$
 $\$65,500 \div 6.65 = 9,849.62 = \$9,850 \text{ Per Acre}$
3. $640 \div 4 \div 4 \div 4 = 10 \text{ Acres}$
4. $640 \div 4 \div 4 \div 4 \div 2 = 5 \text{ Acres}$
5. $640 \div 4 = 160 \text{ Acres}$
 $160 \div 20 = 8 \text{ Parcels}$

PROPERTY OWNERSHIP

MEASURING STRUCTURES

1. Gross Living Area (GLA): The area of a structure measured using exterior dimensions. Also referred to as "Livable Area".

- Finished space that has access to electricity, plumbing, air conditioning and heating.
- Area below grade is not counted in the total square feet of the structure, only above grade is measured.
- No garages or decks are included.

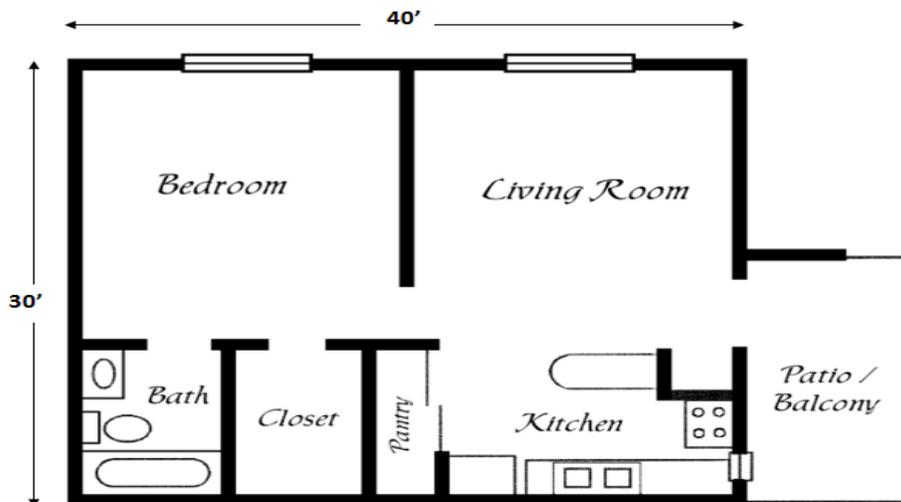
2. Usable Area – Used in commercial leasing

a. The specific area the tenant will occupy in order to do business. Includes all office space plus any storage or private restrooms. No exclusions for columns or recessed entries.

b. If a tenant occupies a full-floor, the usable square feet extend to everything inside the boundaries of the building floor, minus stairwells and elevator shafts. This can include non-usable areas like janitorial closets, or mechanical and electrical rooms. It also include private bathrooms and floor common areas, like kitchenettes, hallways, and reception areas that are specific to that floor's use.

3. Rentable Area – Used in commercial leasing

The usable square feet of the office space plus a pro-rata share of building common areas. Calculated based on the tenant's percentage of space occupied in comparison to the entire building.



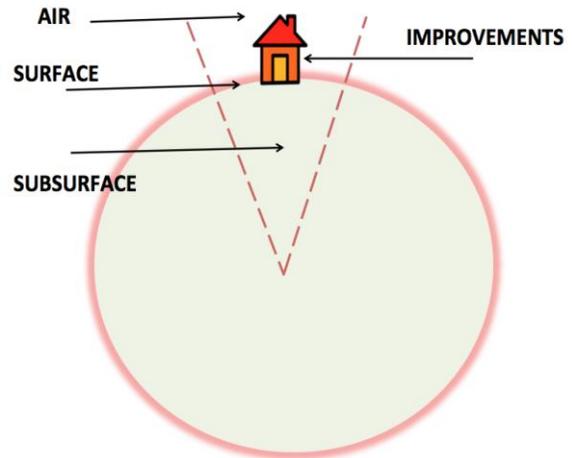
GLA / Livable Area
40' x 30' = 1,200 sq.ft.
Patio not included

PROPERTY OWNERSHIP

MINERAL, AIR AND WATER RIGHTS

Real Estate is Land, what's attached to it permanently, the air space above it and the subsurface underneath such as water, oil and gas, other minerals, etc.

- 1- When real estate is sold, the sale usually includes the surface, improvements, the subsurface including oil, gas, and other mineral rights all the way down to the center of the earth. The sale includes the air space all the way up to infinity.
- 2- The owner may sell/lease all or a portion of the real estate. For example, the owner may sell or lease the subsurface rights while retaining the surface and air rights and vice versa.



3- RIPARIAN RIGHTS:

- A. Rights enjoyed by land owners whose land is located next to rivers, streams or inland lakes.
- B. Owners have the right of reasonable use of water and **own the property all the way to the middle of the stream or center of the lake** that they are situated on.

4- LITTORAL RIGHTS:

- A. Rights of an owner whose land borders large navigable rivers, lakes or oceans.
- B. Owners own the land adjacent to water up to the **high water mark (shoreline)**.

EROSION: The gradual wearing away of land due to the natural movement of water.

ACCRETION: The increase in land resulting from the deposit of soil by natural action of water.

RELICTION: Land is exposed when water permanently recedes.

C- ENCUMBRANCES AND EFFECTS ON PROPERTY OWNERSHIP

ENCUMBRANCES: Liens, mortgages, taxes, leases, easements, judgments, deed restrictions, possibly encroachments, etc. attached to property that may become a burden and which may diminish its value. Encumbrances “run with the land”, i.e. unless cleared before the sale, it continues to affect the property and must be honored by the new owner

PROPERTY OWNERSHIP

LIENS (TYPES AND PRIORITY)

LIEN: A charge against property that provides security for a debt or obligation.

TYPES OF LIENS

1. **STATUTORY LIEN:** Provided by law such as property tax lien, income tax lien, etc.
2. **EQUITABLE LIEN:** Usually placed as a result of a civil dispute such as compensation for slander, harassment, non-payment of bills, etc.

APPLICABILITY OF LIENS

1. **SPECIFIC LIEN:** Applies against certain property only, usually the parcel that is the subject of the lien such as:
 - A. **Mechanic's Lien [Construction Lien]:** A person who furnishes materials and/or effort to improve land and is not paid by the landowner may place a lien on the property.
 - B. **Real Estate Tax Liens:** When taxes on real estate are not paid, it becomes a lien and is attached to the property. The government can take the property and sell it to satisfy the lien.
 - C. **Special Assessments:** Cost due for improvements performed by the local government such as installing city sewers or water, paving the street, etc. Assessments have nothing to do with the true cash value of property. Spreading the cost of the improvements among the benefiting properties assesses it.
 - D. **Mortgage lien:** Applied when a borrower receives a loan and signs a mortgage contract against property.
2. **GENERAL LIEN (BLANKET LIEN):** Applies to a group of properties that an individual owns, usually results from the owner's personal liability.

Federal / State Income Tax Liens: This includes inheritance taxes and income taxes that have not been paid therefore it may become a lien on the real estate.

EASEMENTS AND LICENSES

APPURTENANCES: Rights, privileges and improvements conveyed when ownership of the property is transferred, unless otherwise specified.

EASEMENT:(Also referred to as the “**right of way**”) A right given to a person or entity to use the property of another. May consist of the right to install and maintain sewers, electric and telephone lines, or the right of passage [ingress (entrance) and egress (exit)]. Easements are of a permanent nature and is said to “run with the land”.

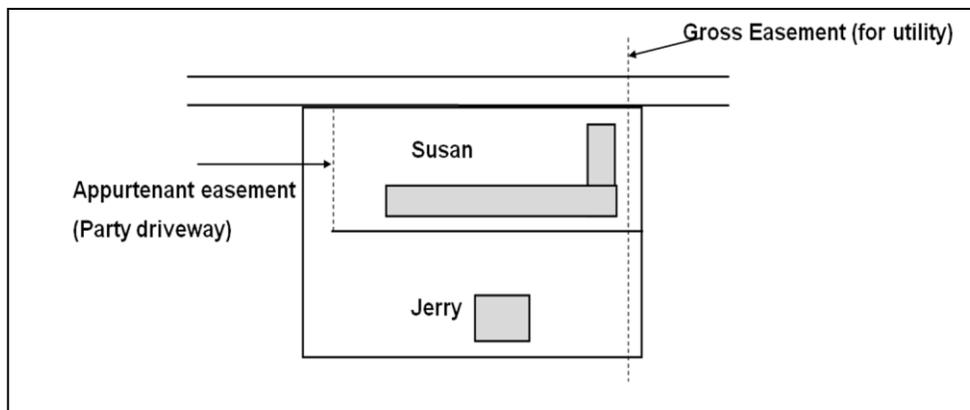
LICENSE: Permission, of a personal and temporary nature, granted to enter someone's land for a particular purpose such as a license to fish or hunt. This right does not run with the land.

PROPERTY OWNERSHIP

TWO MAJOR TYPES OF EASEMENTS

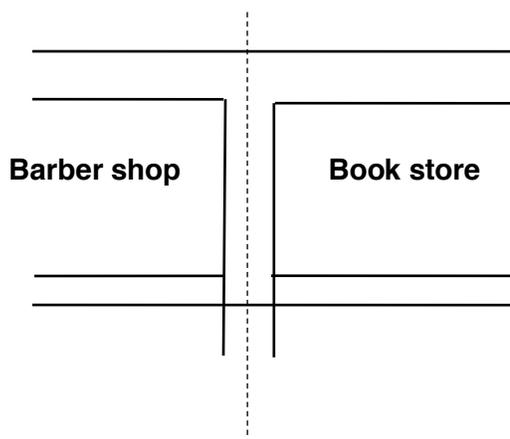
A. EASEMENT APPURTENANT:

1. Benefits a neighboring property, for example, an easement for Ingress and Egress
2. Passes with and is appurtenant to the land
3. Two estates or tenements involved:
 - A. **DOMINANT ESTATE (TENEMENT):** The property that *benefits* from the easement.
DOMINANT TENANT: The owner of the dominant estate.
 - B. **SERVIENT ESTATE (TENEMENT):** The property that is subject to the easement and *encumbered* by it.
SERVIENT TENANT: The owner of the servient estate.



PARTY DRIVEWAY: Two owners of adjoining lots share all or part of the same driveway to get to their houses.

PARTY WALL: A single wall is located on the lot line that separates two parcels.



“RUNS WITH THE LAND” - Easement appurtenant remains as an encumbrance on land after sale, gift, or inheritance, even without mention of such an easement.

PROPERTY OWNERSHIP

B. EASEMENT IN GROSS:

1. Benefits a person or entity.
2. Conveys a right to use the land of another.
3. Involves a servient estate but no dominant estate, i.e. not a neighboring parcel.
4. **PERSONAL EASEMENT (i.e., given to a person):** Does not “run with the land”. It may not be assigned to another person. Terminates upon the sale of the servient estate or death of the holder.
5. **COMMERCIAL EASEMENT (i.e., given to a company):** “Runs with the land”, it can be assigned. Doesn’t terminate upon the sale of the servient estate.

Example: Granting of rights to erect billboards, utility easements for electric and gas.

MAINTENANCE OF EASEMENT:

- A. Negotiated at the time easement is obtained.
- B. The general rule is that the party benefiting from the easement will maintain it.

Example: Utility Company will fix a gas leak inside your property, while neighbors sharing a party driveway or wall will both maintain it.

EASEMENTS ARE GIVEN BY MEANS OF:

- A. **A GRANT:** A written document that specifically grants an easement to another person
- B. **EASEMENT BY RESERVATION:** A person may transfer ownership in property but withhold the right to use a certain portion of that property.
- C. **EASEMENT BY NECESSITY:** Court-ordered easement for the benefit of a “landlocked” parcel over an adjacent property providing access.
- D. **GOVERNMENT CONDEMNATION:** Easement is obtained by the government under the power of eminent domain, for public use.
- E. **EASEMENT BY PRESCRIPTION** (adverse easement):
 1. Obtained as a result of trespass situation by one party on another’s land
 2. Continues for the statutory period (15 years in Michigan)
 3. Trespass must be open, continuous and notorious
 4. Claimant to file “quieting title suit” to claim easement and has burden of proof

TERMINATION OF AN EASEMENT

- A. **MERGER** of Dominant and Servient Estates.
- B. **RELEASE** by Dominant tenant.

PROPERTY OWNERSHIP

C. NECESSITY NO LONGER EXISTS (only when easement was obtained by necessity).

D. LACK OF USE (abandonment or prolonged non-use). The mere non-use may not terminate an easement.

ENCROACHMENTS

ENCROACHMENT:

A. A trespass of a building, garage, fence, etc., over the property line of another. It may be detected by a survey.

B. An owner of property trespassed over may force the removal of encroachment with a court order.

C. If encroachment stays for the statutory period, it may affect the marketability of the property.

ADVERSE POSSESSION: A person occupies another person's land for the statutory period of time, (in Michigan, 15 years or more) and then seeks a court order (file "Quieting Title Suit") to receive title to property. The following conditions must be met:

A. Possession must have been exclusive and continuous, throughout the whole period of time.

B. Must not be authorized by the owner, i.e. hostile and notorious.

C. Open and Apparent Possession.

D- TYPES OF OWNERSHIP

TYPES OF ESTATES

1. FREEHOLD ESTATE: Interest in real property for a lifetime or more. It is of an indeterminable length. It can be obtained through inheritance or deed.

2. NON-FREEHOLD ESTATE (Leasehold estate): Interest in property for less than a lifetime and considered to be personal interest. It is obtained by receiving a lease on property.

1. FREEHOLD ESTATES:

1. FEE-SIMPLE ESTATES:

A. Also known as FEE-SIMPLE ABSOLUTE.

B. The highest type of interest in real estate recognized by law.

C. An estate of inheritance can run indefinitely.

D. Upon the death of the owner, it passes to the heirs as provided in the owner's will or according to state law if there is no will.

PROPERTY OWNERSHIP

2. DEFEASIBLE FEE ESTATES (Qualified Fee Estate):

A. Title may be divested upon occurrence or non-occurrence of a specified event that is stated as a condition placed in the deed. Such condition will “run with the land”. If the grantee is not abiding by the restrictions set forth by the grantor, the property may revert back to the grantor.

B. It consists of FEE SIMPLE DETERMINABLE or FEE SIMPLE CONDITIONAL.

1. FEE SIMPLE DETERMINABLE: Given for a special purpose and has a special limitation or condition that the owner must do.

Example: Property granted to a college “as long as” it is used for educational purposes. If the use is violated, title automatically reverts to the grantor.

2. FEE SIMPLE CONDITIONAL: Terminates upon the violation of a certain activity that the owner must not perform. Such activity is specified when property is granted, grantor reserves a “right of re-entry”. The estate does not terminate until the grantor goes to court to assert his right.

Example: Property is conveyed on condition there is no consumption of alcohol. If condition is violated, the former owner has the right to get property back.

3. LIFE ESTATES:

A. Granted to a person (life tenant) for a lifetime.

B. Not an estate of inheritance.

C. Consists of two basic types: Ordinary and PurAutre Vie.

1. ORDINARY LIFE ESTATE: Duration of ownership ends upon the death of the life tenant and the property reverts back to the original person who granted it or his/her heirs, or other specified entity.

Example: Tom grants property to his sister Sharon for her lifetime. When Sharon dies, the property reverts back to Tom, his heirs, or other specified entity.

2. PUR AUTRE VIE ESTATE: Granted for the life of a third party other than the person that granted the estate and the present life tenant.

Example: Tom grants property to his sister Sharon for the life of their mother because Sharon cares for the mother at the property. When their mother dies, the house must go back to Tom.

PROPERTY OWNERSHIP

D. The person giving the life estate can specify either of the following estates, which controls the recipient of the estate after the death of the life tenant.

1. ESTATE IN REMAINDER: The deed or will that creates the life estate names a third party or entity to which title will pass upon the death of the life tenant. The third party is said to own a “remainder interest” or estate. This person or entity is called the REMAINDERMAN.

2. ESTATE IN REVERSION: Property reverts back to the original person who granted it to the life tenant and who holds a REVERSIONARY INTEREST.

INTER VIVOS: During one’s life.

E. LEGAL LIFE ESTATES

1. DOWER RIGHTS:

A. Wife’s life estate in her husband’s real property conveyed to her upon his death.

B. In order for wife to bar her dower, she must join husband in conveying property upon sale despite the fact that husband owns property alone.

C. Many states including Michigan have eliminated Dower.

2. CURTESY: Husband’s life estate in his wife’s property conveyed to him upon her death.

3. HOMESTEAD: Protects the holder’s principal residence from being sold by creditors to satisfy outstanding debts.

FORMS OF OWNERSHIP

1. SEVERALTY (ESTATE IN SEVERALTY): Ownership by one individual or an entity such as a corporation.

2. CONCURRENT ESTATE: Held by more than one person

I. TENANTS BY THE ENTIRETIES:

A. Property is deeded to a married couple.

B. Each owns the entire property.

C. **Right of Survivorship:** If either spouse dies, the survivor automatically becomes the owner of the property in severalty. No need for a will or probate court. Tenants by the entireties could also be joint tenancy with survivorship.

PROPERTY OWNERSHIP

D. In order for property to be sold, refinanced, leased, willed, both husband and wife must sign all the instruments.

E. Requires the following:

- a- **Unity of Possession:** Undivided and equal possession of the entire property.
- b- **Unity of Time:** Both spouses must receive title at the same time.
- c- **Unity of Title:** Both spouses must receive title using the same instrument (deed).

II. JOINT TENANCY:

A. Property is deeded to two or more owners with the **right of survivorship**.

Example: John and Bob are Joint Tenants. John dies. What happens to property? It goes to Bob.

B. Unity of Possession

C. Unity of Interest: Tenants share equal interest, i.e. if there are three tenants, they must each have one-third.

D. Unity of Time

E. Unity of Title

III. TENANTS IN COMMON:

A. Owners may have an equal or an unequal interest; each owns a proportionate share of the property as an undivided interest. Ownership interest is stated on the deed. If the deed does not state a percentage of ownership, each of the grantees is presumed to receive an equal interest.

B. UNITY OF POSSESSION: Parties share an undivided possession of property and are entitled to its full use and enjoyment.

Example: Tenant (A) owns 20% of property while (B) owns the remaining 80%. (A) has the same right to occupy and use property that (B) has.

C. No right of survivorship; when one tenant dies, his/her interest passes to the heirs.

D. Tenants may take ownership, all at one time, or at different times.

E. Each tenant may dispose of any part of his/her interest without affecting the interest of others.

F. PARTITION SUIT: Originated by one or more co-tenants asking the court to order the splitting of interest to end the tenancy when a voluntary agreement cannot be reached.

PROPERTY OWNERSHIP

LEASEHOLDS – See Leasing and Property Management

COMMON INTEREST OWNERSHIP PROPERTIES

CONDOMINIUM OWNERSHIP:

A system of ownership reflected in owning one unit in a multi-unit structure, combined with the ownership of common elements.

A. TYPES AND FORMS OF CONDOMINIUMS:

1. Offices in an office building.
2. Apartment buildings including high-rises.
3. Townhouses.
4. Shopping Centers.
5. Mini-storage warehouses
6. Home sites, etc.

B. COMMON ELEMENTS:

1. Portions of the multi-unit structure that are owned by unit owners together as tenants in common.
2. Examples are swimming pool, clubhouse, yards, structural portions of the complex, etc.

C. OWNERSHIP OF CONDOMINIUMS:

Each condominium unit is owned as a separate parcel and is owned in fee simple. Each co-owner has a deed to his/her unit.

D. CONDOMINIUM ASSOCIATION (OWNERS' ASSOCIATION):

1. Consists of the co-owners of the condominium units.
2. Operates the condominium development according to the **BYLAWS**.
3. Governed by a **BOARD OF DIRECTORS**.
4. Responsible for maintenance, cleaning, and sanitation of the common elements and structural portions of the property.
5. Maintains fire and extended-coverage insurance as well as liability insurance for the common areas and the structural portions of property.

E. CONDOMINIUM FEE (ASSOCIATION FEE):

1. An expense assessed in proportion to the cost necessary to operate the Condominium Association such as maintenance and insurance of common elements. It is billed to every individual unit owner.
2. Although may be tax deductible for a condominium unit used as an investment or in line of business, it is not tax deductible if unit is used as principal residence.

PROPERTY OWNERSHIP

F. FINANCING OF CONDOMINIUMS:

1. Not different from any single family home or other property.
2. Upon default, the owner is subject to losing his/her unit in a foreclosure action by the lender. The other owners in the same project are not affected.
3. Owners are entitled to tax deductions.

G. TAXES ON CONDOMINIUMS:

1. Paid ad valorem.
2. Taxes on common elements are prorated and billed to each individual co-owner.

H. INSURANCE:

Although fire and extended-coverage and liability insurance is provided for the common elements and the structural portions of the property by the association, insurance on the contents and interior of the units must be provided for by each individual unit owner.

I. AIR SPACE:

Condominium owner is technically considered to own the air space between floors, walls, and ceilings. The floors, walls, and ceilings are typically common elements.

J. TIME-SHARED OWNERSHIP:

1. Multiple purchasers buy interests in the same parcel
2. Each owner is entitled to use the unit for a certain period of time throughout the year
3. Maintenance and other common expenses are prorated among the unit owners.

COOPERATIVES:

Land and improvements owned by a corporation which leases units back to the shareholders.

A. PROPRIETARY LEASE:

Given by the corporation to shareholders in the cooperative to be able to use the property in part or full. The shareholders are called the COOPERATORS.

B. OWNERSHIP OF COOPERATIVES:

1. The real estate is owned by a corporation, which has title to the complex
2. The leaseholders own stock in the corporation, which is personal property and not real estate
3. Leaseholders control the cooperative development through their stock ownership in the corporation.

BUNDLE OF RIGHTS

The right to own real estate as a Freehold estate including legal rights such as possession, enjoyment, lease, sell, will, mortgage, etc.

LAND USE CONTROLS AND REGULATIONS

Property ownership held in a trust (Brokers Only)

Trust Ownership

A trust is a legal fiduciary arrangement involving three parties, the **trustor/grantor** who transfers property upon the second party, the **trustee** who controls and manages the property for the benefit of the third party, the **beneficiary**.

A popular type is the “living trust” which is used for estate planning where an individual grants title to be held during the grantor’s lifetime (inter vivos) and it is common for the grantor to **be both a trustee and a lifetime beneficiary** while naming other contingent beneficiaries upon the grantor’s death.

In other words, the written legal document places someone’s assets into a trust for his own benefit during his lifetime and then transfers the assets to designated beneficiaries upon his death by an appointed trustee which could be a relative or a child who can jump right in and start acting to manage the trust without waiting for a decision from probate court, saving the beneficiaries time, money and public scrutiny as opposed to filing a will with probate court.

Land use controls and regulations (Salesperson 5 items/Broker 5 items)

- A. Government rights in land
 - 1. Property taxes and special assessments
 - 2. Eminent domain, condemnation, escheat
 - B. Government controls
 - 1. Zoning and master plans
 - 2. Building codes
 - 3. Regulation of special land types
 - a) Flood zones
 - b) Wet lands
 - 4. Regulation of environmental hazards
 - a) Types of hazards
 - b) Abatement and mitigation
 - c) Restrictions on contaminated property
 - C. Private controls
 - 1. Deed conditions or restrictions
 - 2. Covenants, conditions, and restrictions (CC&Rs)
 - 3. Homeowners association regulations
-

A. GOVERNMENT RIGHTS IN LAND

PROPERTY TAXES AND SPECIAL ASSESSMENTS

- ✓ **1. TAXATION:** The right of the government to charge property owners an amount in proportion to property value (advalorem). Such funds are used for public purpose. The government has the right to take property from owners who do not pay tax and sell it to collect (a two year delinquency is required under Michigan law).
- ✓ **2. AD VALOREM (LATIN WORD):** According to value. The method used to calculate property taxes.
- ✓ **3. ASSESSMENT RATE:** The ratio between the assessed value of property and its appraised value. **IN MICHIGAN** the assessment rate is **(50%)** of the true cash value of property.

LAND USE CONTROLS AND REGULATIONS

✓ **4. ASSESSED VALUATION:** Determined by a property's market value. Set by the assessor, the assessed value when **multiplied by two** will give an approximate market value of the property. The assessor is constitutionally required to set the assessed value at 50% of the **true cash value** of the property which is based on the property **appraised value** as determined by the assessor. **According to the Michigan Supreme Court**, "True cash value" as used in MCL 207.526(u) refers to the **property's fair market value**, namely the price that a willing buyer and a willing seller would arrive at through arm's-length negotiation.

✓ **5. MILLAGE RATE (TAX RATE):** ONE MILL = ONE TENTH OF A CENT per dollar of assessed value.

Example 1: 50 Mills = $50 \div 1000 = .05 = 5\% = \5 per hundred.

Short cut: If the millage is 54, simply place the decimal point between the 5 and the 4 which gives you 5.4%, likewise 67 mills = 6.7%, 18 mills is 1.8% and so on.

Example 2: If the assessment rate is 50 percent, and land is appraised at \$60,000, then the assessed value is \$30,000

6. STATE EQUALIZED VALUE [SEV]

The **assessed value** that has been adjusted following county and state equalization. The **County Board** of Commissioners and the **Michigan State** Tax Commission must review local assessments and adjust (equalize) them if they are above or below the constitutional 50% level of assessment.

7. TAXABLE VALUE: Is the value used for determining the property owner's tax liability **In Michigan**. It is derived from the Assessed Value of the property. **Multiplying the taxable value by the local millage rate** will determine your tax liability. Taxable value increases are capped and limited to the yearly increases of the Consumer Price Index (CPI) or 5%, whichever is lower. **Once property is sold** the Taxable Value must be **uncapped** and adjusted to equal the SEV.

8. PRINCIPAL RESIDENCE EXEMPTION (PRE): Provides an 18 mill discount for a property that is filed with the local assessor's office as a principal residence where the owner actually lives there.

9. PERSONAL PROPERTY TAX: Paid on personal property such as Trade Fixtures and Equipment owned by businesses.

✓ **10. SPECIAL ASSESSMENTS:** Charges assessed for improvements provided by the local government that benefit the property such as installing utilities or paving the road.

✓ **11. TAX CALCULATION:** TAX PAID = TAXABLE (ASSESSED) VALUE X MILLAGE RATE%. **EXAM QUESTIONS** will probably use the term Appraised Value, Assessed Value, Millage rate. Use the assessment rate given (do not assume it is 50%). If value is given without stating the assessment rate, just assume that it is the assessed value and multiply it by the millage to get the property tax amount.

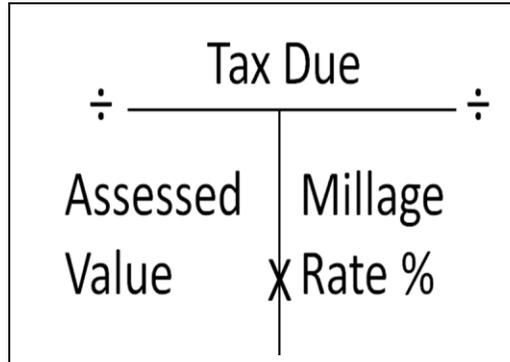
Example 3: Property **appraised value** is \$80,000 located in Michigan where the tax rate is **six dollars per hundred**. How much in tax is paid?

ASSESSED VALUE = $\$80,000 \times 50\% = \$40,000$
TAX = $\$40,000 \times 6\% = \$2,400$ TAXES PAID

Example 4: Property assessed at \$80,000 with 62 mills, taxes?

$\$80,000 \times 6.2\% = \$4,960$

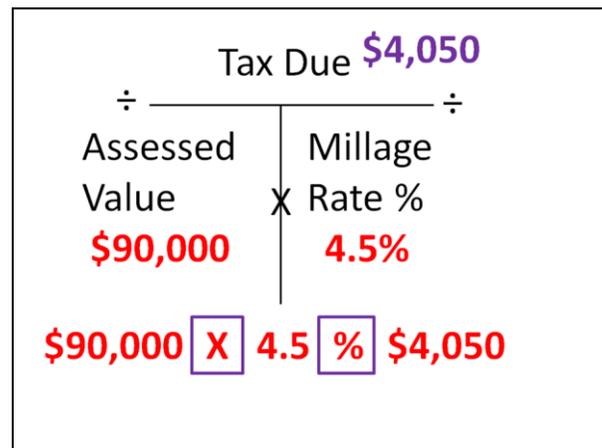
LAND USE CONTROLS AND REGULATIONS



71Ex: Property is Appraised at \$180,000. Assessment rate is 50% with 45 mills. How much property tax is due?

Answer

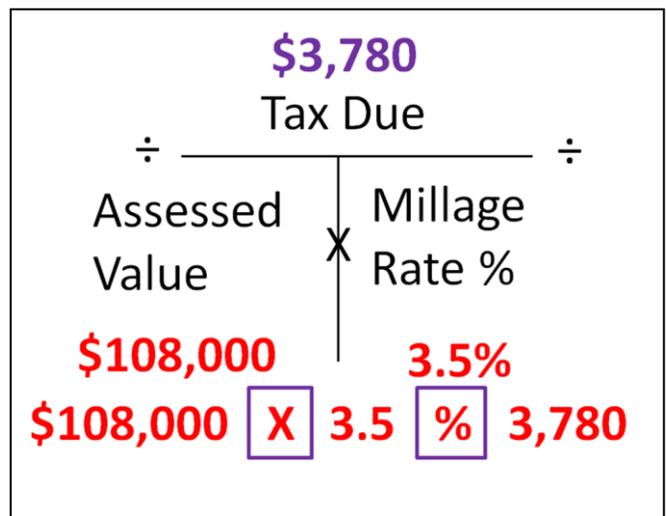
$$\$180,000 \times 50\% = \$90,000 \text{ Assessed Value}$$



EX: Property appraised at \$180,000 and assessed at 60% (not 50% as they do in Michigan). How much tax is due if the millage is 35mills?

Answer: \$180,000 x 60% = \$108,000

$$\$108,000 \times 3.5\% = \$3,780$$



LAND USE CONTROLS AND REGULATIONS

REVIEW

Q – 1: Property appraised at \$73,250 (In Michigan) and tax rate is \$2.80 per hundred of assessed value. What is tax due?

Q – 2: What is the tax rate if tax due was \$1,912.50 and assessed value was \$42,500?

Q – 3: How much tax is due if appraised value is \$143,100, property assessed at 60% and millage is 42?

Q – 4: What is assessed value if tax paid is \$7,234 and tax rate is 35 mills?

ANSWERS

1. $\$73,250 \div 2 = \$36,625$ assessed value

$$\begin{array}{r|l} \text{?} = \$1025.50 & \\ \hline \$36,625 & 2.8\% \end{array} \quad \$36,625 \times 2.8\% = \$1,025.50$$

2.

$$\begin{array}{r|l} \$1912.50 & \\ \hline \$42,500 & = 4.5\% \end{array} \quad \$1912.50 \div \$42,500 = 4.5\% \text{ OR } 45 \text{ mills}$$

3. $\$143,100 \times 60\% = \$85,860$ Assessed value, $\$85,860 \times 4.2\% = \$3,606.12$

$$\begin{array}{r|l} \text{?} = \$3,606.12 & \\ \hline \$85,860 & 4.2\% \end{array}$$

4.

$$\begin{array}{r|l} \$7,234 & \\ \hline \text{?} = \$206,685.71 & 3.5\% \end{array} \quad \$7,234 \div 3.5\% = \$206,685.71$$

LAND USE CONTROLS AND REGULATIONS

EMINENT DOMAIN, CONDEMNATION, ESCHEAT

EMINENT DOMAIN: The government's right to take private property for public use provided that taking is **necessary** and after payment of **just compensation**.

CONDEMNATION: Action through which Eminent Domain is accomplished when an owner does not voluntarily agree to relinquish ownership.

ESCHEAT: Property reverts to the State when owner dies intestate [without a will] and has no heirs.

POLICE POWER

POLICE POWER: Vested in government to make laws and regulations for the health, safety and welfare of the public. Examples are planning, zoning, building codes, health codes, and environmental protection laws and in some states rent control. This power is delegated by state to local municipalities.

B. GOVERNMENT CONTROLS

ZONING AND MASTER PLANS

PLANNING: An act of local governments aimed at controlling the growth of the local community. Many factors are considered such as the density of the population, the need for housing, recreation, commercial, retail establishments, etc.

MASTER PLAN: Used by planners to guide them into allocating various zoning districts.

ZONING: The act of local governments to determine the use of certain properties such as RESIDENTIAL, COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL. In addition to land use, zoning may control the size of the improvements, the architectural layout, height of the building, etc.

ZONING ORDINANCE: The execution of police power of a local government (municipality), in controlling zoning and use of property.

BUFFER ZONE: Used to separate two different-use districts trying to minimize the effects of "economic obsolescence" such as placing a park between an industrial and a residential district.

SETBACK ORDINANCE (Building line, setback line): Distance from lot edge to where building is erected.

NON-CONFORMING USE: The use of the land that does not match the zoning law. May be allowed based on the following:

- a- **GRANDFATHER CLAUSE:** A provision in the law that allows the continuation of a non-conforming use when such use had preceded a zoning change.

Example: Property is allowed to be used as a home even though it is located on a busy highway in a commercial district because it was already used for residential purpose before zoning changed.

LAND USE CONTROLS AND REGULATIONS

b- ZONING VARIANCE: Allows the introduction (by a government) of a non-conforming use.

Example: Property owner applies for a variance to build 30ft from the lot line instead of the 50ft setback required under the zoning law.

BUILDING CODES

BUILDING CODES: The State of Michigan has adopted the **Michigan Residential Code** which applies to the construction and remodeling of residential properties statewide. Other codes apply for commercial construction as well.

ENVIRONMENTAL IMPACT REPORTS

Environmental Impact Report : A report that results from a study of the factors/effects which a land development or construction project would have on the environment in the area including population, traffic, schools, fire protection, endangered species, archeological artifacts, and community beauty. The report is required by the **local government** as a condition to approve a proposed project.

REGULATION OF SPECIAL LAND TYPES

Flood Plain: Property bordering a river, and may be subject to flooding. Flood insurance may be required by the lender.

Flood Zone: Flood zones are geographic areas that the Federal Emergency Management Agency (FEMA) has defined according to varying levels of flood risk. These zones are depicted on a community's Flood Insurance Rate Map (FIRM) or Flood Hazard Boundary Map.

Wetland: Areas where water covers the soil, or is present either at or near the surface of the soil all year or for varying periods of time during the year, including during the growing season, supporting vegetation and aquatic life. A permit is required to dredge, excavate, drain water, construct on wetlands.

REGULATION OF ENVIRONMENTAL HAZARDS

ABATEMENT, MITIGATION AND CLEANUP REQUIREMENTS

- 1- Abatement is a measure taken to reduce, control, minimize or eliminate pollution from a given environment.
- 2- Real Estate may be subject to a number of environmental hazards (7C).
- 3- Abatement must be performed by professional contractors especially when state and federal laws require certain procedures to be followed by licensed abatement contractors.

RESTRICTIONS ON SALE OR DEVELOPMENT OF CONTAMINATED PROPERTY

- 1- Purchasing contaminated property carries tremendous financial liability for the new owner.
- 2- Highly advisable to perform an **environmental audit (environmental site assessment)** on the property to determine if contamination exists and if so, to what level?

LAND USE CONTROLS AND REGULATIONS

3- **The licensee** should strongly recommend the necessary environmental audits and has a duty to disclose all “known” contamination because the contamination is considered to be a “material fact”, i.e. a defect.

4- A potential purchaser who **discovers contamination** with property may do the following:

- A- Decide **not to buy** the property
- B- Require the seller to perform **cleanup**
- C- Offer a **lower price**.

TYPES OF HAZARDS AND POTENTIAL FOR AGENT ORSELLER LIABILITY

POSSIBLE HAZARDS FOUND IN PROPERTY

I. ASBESTOS:

- A. Used widely to manufacture heat resistant material and insulation before the mid-1970s. **It is fire resistant.**
- B. Evidence that it may cause lung cancer when spread in the air and inhaled by humans.
- C. Products containing **asbestos** should only be handled by a licensed **asbestos removal** contractor.

In most cases, **asbestos** must be removed entirely; however, in some instances **asbestos abatement** may be accomplished through encasement or **encapsulation**.

II. LEAD-BASED PAINT:

- A. Paint that contains a high level of lead. Manufacturing was **prohibited in 1978**.
- B. Exists in millions of homes built prior to 1978 (also known as “**Target Homes**”)
- C. Extremely toxic when swallowed, absorbed through skin, or inhaled as dust. Affects brain, blood and kidneys, especially in children.
- D. Special disclosure required for **sale and rental** of property as well as (EPA) Informational pamphlet: “Protect Your Family from Lead in Your Home” when dealing with property built prior to 1978.
- E. In the event of a purchase, buyers are given a **10 day period** to inspect the property (in addition to the EPA disclosure) before the purchase agreement becomes totally binding.
- F. Seller, landlord and agent are all required to disclose any known information regarding the existence of lead paint in a home or apartment before a purchase agreement or lease is signed.
- G. **Abatement**: Is the removal of all the components that contains lead paint. (**Encapsulation** may be used in some instances). A full abatement includes the interior and exterior of the home, possibly including the soil surrounding the home. Only licensed professionals are allowed to do lead assessment and abatement on Target Homes.



LAND USE CONTROLS AND REGULATIONS

Disclosure of Information on Lead-Based Paint and/or Lead-Based Paint Hazards

Lead Warning Statement

Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead from lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence quotient, behavioral problems, and impaired memory. Lead poisoning also poses a particular risk to pregnant women. The seller of any interest in residential real property is required to provide the buyer with any information on lead-based paint hazards from risk assessments or inspections in the seller's possession and notify the buyer of any known lead-based paint hazards. A risk assessment or inspection for possible lead-based paint hazards is recommended prior to purchase.

Seller's Disclosure

- (a) Presence of lead-based paint and/or lead-based paint hazards (check (i) or (ii) below):
- (i) _____ Known lead-based paint and/or lead-based paint hazards are present in the housing (explain).
- _____
- (ii) _____ Seller has no knowledge of lead-based paint and/or lead-based paint hazards in the housing.
- (b) Records and reports available to the seller (check (i) or (ii) below):
- (i) _____ Seller has provided the purchaser with all available records and reports pertaining to lead-based paint and/or lead-based paint hazards in the housing (list documents below).
- _____
- (ii) _____ Seller has no reports or records pertaining to lead-based paint and/or lead-based paint hazards in the housing.

Purchaser's Acknowledgment (initial)

- (c) _____ Purchaser has received copies of all information listed above.
- (d) _____ Purchaser has received the pamphlet *Protect Your Family from Lead in Your Home*.
- (e) Purchaser has (check (i) or (ii) below):
- (i) _____ received a 10-day opportunity (or mutually agreed upon period) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards; or
- (ii) _____ waived the opportunity to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards.

Agent's Acknowledgment (initial)

- (f) _____ Agent has informed the seller of the seller's obligations under 42 U.S.C. 4852(d) and is aware of his/her responsibility to ensure compliance.

Certification of Accuracy

The following parties have reviewed the information above and certify, to the best of their knowledge, that the information they have provided is true and accurate.

_____ Seller	_____ Date	_____ Seller	_____ Date
_____ Purchaser	_____ Date	_____ Purchaser	_____ Date
_____ Agent	_____ Date	_____ Agent	_____ Date

LAND USE CONTROLS AND REGULATIONS

IV. RADON:

- A. **Colorless, odorless radioactive gas** resulting from decay of natural radioactive substances.
- B. Travels inside the ground and may become trapped inside buildings especially in **basement level in buildings** that lack ventilation.
- C. **Known to cause health problems such as lung cancer.**
- D. **Penetrates many common materials** like paper, leather, low density plastic (like plastic bags, etc.) most paints, and building materials like gypsum board (sheetrock), concrete block, mortar, sheathing paper (tarpaper), wood paneling, and most insulations. Radon is also fairly soluble in water
- E. **Seller's disclosure statement** requires disclose
- F. **Radon mitigation:** process used to reduce radon gas concentrations in the breathing zones of occupied buildings or radon from water supplies. Mitigation of radon in the air is accomplished through ventilation, either collected below a concrete floor slab or membrane on the ground, or by increasing the air changes per hour in the building. Treatment systems using aeration or activated charcoal are available to remove radon from domestic water supplies

Excerpts from
seller's disclosure
See P.5 →

10. Environmental Problems: Are you aware of any substances, materials, or products that may be an environmental hazard such as, but not limited to, **asbestos, radon gas, formaldehyde, lead-based paint, fuel or chemical storage tanks and contaminated soil on the property**
unknown _____ yes _____ no _____ If yes, please explain: _____

V. UNDERGROUND STORAGE TANKS:

- A. Used to provide buildings with heating oil, also for gas stations and various commercial industrial, and farming facilities.
- B. Leakage causes contamination, cleaning required.
- C. Contamination may result from neighboring property that may have leakage.
- D. Property may need "Environmental Audit" before sale or any approval of commercial lending.

VI. UREA FORMALDEHYDE:

- A. Used for insulation in the 1970s.
- B. Releases poisonous gases into the building when not sealed properly.

VII. WATER QUALITY:

- A. Underground water may be polluted with toxic material or bacteria.
- B. A sample should be sent in to the local health department or private agency for evaluation.
- C. If contaminated, property may need a new well, or may have to be connected to the municipality water service or may have to use other means to provide good water such as water purifiers and softeners.

VIII. MOLD

- A. Results from the growth of "spores" which are unicellular reproductive bodies released by plants.

LAND USE CONTROLS AND REGULATIONS

- B. Mold spores need air, humidity and organic matter to live and grow.
- C. Properties who may have had water leakage problems may have an excessive growth of mold especially in areas that are humid, and have poor ventilation such as the attic or the basement.
- D. Mold encourages bacterial growth and approximately 10% of people are allergic to it.
- E. Some studies indicate that certain types of mold can be **toxic**.

VIII. CARBON MONOXIDE

- A. Odorless, colorless gas that occurs as a result of burning fuel such as gas, wood, or oil when combustion is incomplete.
- B. Once absorbed by blood through breathing, it will stop the red cells in the human body from absorbing oxygen which may ultimately result in poisoning and possibly death

C. PRIVATE CONTROLS

DEED CONDITIONS OR RESTRICTIONS

1. DEED RESTRICTION (Restrictive Covenant): A provision in the deed aimed at controlling the present and the future use of land. Initially placed by the seller (grantor) to restrict the buyer's use (grantee). **Also referred to as CC & R's**

Example: Restrictions may not allow a privacy fence, a shed in the backyard, may not allow certain architectural styles, building size, height, landscaping, etc.

2. Deed restrictions may be more restrictive than a zoning ordinance. In case of a dispute, the **more restrictive** of the two will prevail.

Example: A zoning ordinance allows the construction of **1 – 4 unit residential property** but the deed restriction states that **only residential single family** can be constructed on the lot. The deed restriction must be followed because it is **more restrictive** than the zoning ordinance.

3. Covenants are usually placed by land developer to restrict the use and occupancy of the property as means of controlling and maintaining the desirable quality and character of the subdivision.

A. Restrictions must be reasonable and not against public policy or law such as **a racial or religious covenant, which would have no validity under law.**

B. Upon violation, a **court injunction may** be obtained by a neighbor or neighborhood association to stop the violators.

HOMEOWNERS ASSOCIATION (HOA) REGULATIONS

1. Established in communities such as **condominiums and subdivisions.**

2. Provides for regulations aimed at preserving and maintaining property values and neighborhood relations. For example, rules that control number of pets, speed, noise, size of buildings, type of construction, etc.

3. May require association fees to be paid. Non-payment may result in lien against property.

VALUATION AND MARKET ANALYSIS

Valuation and market analysis (Salesperson 6 items/Broker 6 items)

- A. Appraisals
 - 1. Purpose and use of appraisals for valuation
 - 2. General steps in appraisal process
 - 3. Situations requiring appraisal by certified appraiser
 - B. Estimating Value
 - 1. Effect of economic principles and property characteristics
 - 2. Sales or market comparison approach
 - 3. Cost approach
 - 4. Income analysis approach
 - C. Competitive/Comparative Market Analysis
 - 1. Selecting comparables
 - 2. Adjusting comparables
-

A. APPRAISALS

- 1- An appraisal report is issued by a State Licensed Appraisers and must comply with the **Uniform Standards of Professional Appraisal Practice (USPAP)**.
- 2- Lenders rely on **appraisal reports** to decide the **safest amount** of loan that they can give.
- 3- In addition to lender requirements, if a licensee is called upon to provide a market analysis on a property that s/he feels is not qualified to analyze, services of professional certified appraiser may be required.
- 4- An appraisal report is a written opinion that is provided by a licensed appraiser. The appraisal is not a guarantee or a determination as to what the selling price will be in an open market.

B. ESTIMATING VALUE

MARKET VALUE (FAIR MARKET VALUE): What a willing buyer will most probably pay a willing seller if neither one of them is under any pressure to buy or to sell, both have reasonable knowledge of the property, and property is on the market for a reasonable length of time. Market Value is usually provided as an **opinion** from a licensed appraiser.

MARKET PRICE: **Actual selling price** of property at a certain point in time. It may be higher, lower, or the same as the appraisal price.

ARM'S LENGTH TRANSACTION: A transaction that occurs in a competitive market that leads to a fair sale involving a willing buyer and seller, both acting with knowledge of the property under **no duress** and with no other intervening factors such as selling to a relative or friend.

VALUATION AND MARKET ANALYSIS

PRINCIPLES OF VALUE

CONFORMITY: Property achieves highest value by being located in harmony with other surrounding property. For example, a home should be located in a single family subdivision, not next to an industrial park.

REGRESSION: A larger and more expensive dwelling may lose value if it is located near smaller low-priced dwellings.

CONTRIBUTION: Value added by one component or part of property as measured to the whole. For example, how would an extra vacant lot added to a restaurant building as parking affect its value, or how would an added garage affect the value of a home?

SUBSTITUTION: A theory used to evaluate property that considers the cost of obtaining another comparable property. A buyer will not pay a higher price than what it would cost to purchase another similar property in the same real estate market area.

HIGHEST AND BEST USE: The use of land that produces the highest value, provided that it is legal, economical, and physically possible.

For example, a feasibility study is conducted to determine “highest and best use” on a vacant lot zoned commercial located off the expressway exit. The result of the study is that the highest and best use would be a service station accompanied by a coffee shop. The study considers the current or possible future zoning, as well as the market value of the land, cost of improvements, anticipated revenue, etc.

ANTICIPATION

1. Changes known to the community may have a positive or negative effect.
2. Examples include a new landfill or a toxic waste dumpsite being proposed in an area, a new factory that will bring employment, a new expressway, and a possible change in zoning, etc.
3. An agent should be aware of anticipated changes as part of duty to perform due diligence in considering factors that affect value.

ASSEMBLAGE: The merging of 2 or more adjacent parcels into one larger tract. Usually done to create a large enough property for a certain user. The value resulting from assemblage of different properties is known as **PLOTTAGE VALUE.**

PROPERTY CHARACTERISTICS

PHYSICAL CHARACTERISTICS AFFECTING VALUE

1. **DURABILITY:** Although improvements depreciate physically over time, land does not.

Example: Buy some land and let it sit for 30 years and then come back to check on it, it still looks the same. Even a brick building may still look the same. This feature increases the value of real estate.

2. **IMMOBILITY:** Real estate is not movable.

Example: have you heard that the 3 most important aspect of real estate value is location, location, location. Immobility can be good or bad because if your property is

VALUATION AND MARKET ANALYSIS

in a good location, that will bring its value upwards. But if it's in a bad location, you cannot move it elsewhere.

3. HETEROGENEITY (non-homogeneity): Every property is UNIQUE; No two parcels are alike.

Even when you have two adjacent lots in the subdivision that would seem to be of the same size and value, they still have two different legal descriptions; one is lot #17 while the other is lot #18.

ECONOMIC CHARACTERISTICS AFFECTING VALUE (D.U.S.T)

1. DESIRABILITY (DEMAND): Whether or not there are possible buyers interested in the property that are willing, able, and have the financial means to purchase.

Example: 200-unit condominium complex is built on a waterfront; some units are not facing the water. Chances are that the units facing the water will sell at a higher price because they are more desirable, i.e. there is more "demand" on them.

2. SCARCITY (SUPPLY): Whether or not there are other similar properties of a comparable nature within the same general area that will compete with the subject property.

Example: a 200 unit condominium complex was pre-sold before construction; finally one buyer canceled his purchase agreement because he was being transferred out of town. When your buyer wants to make an offer on the last remaining unit, it will be very hard to bargain on the price because of scarcity. Had it been the other way around, for example, if only 50 units were sold and there were 150 units left on the market, there will be some room for bargaining and the price may go down.

3. UTILITY: The type of use that the subject property is most suitable for, and whether or not it satisfies the needs of a certain buyer.

Example: a small town known for its large retirement community has a new subdivision being built with mostly one-story Ranch homes. This design will probably prove to be popular with the majority of people in the city, because those of a retirement age may have issues with climbing too many stairs, therefore they will be able to "utilize" this type of design much better than a two story home, especially with bedrooms located upstairs.

4. TRANSFERABILITY: The ability to sell, lease, will property to another person. The more the restrictions on the sale, lease or transfer of property, the less the value.

Example: Property may be the subject of a dispute between partners, or certain action taken by a government entity such as the IRS or DEA, therefore, unless these restrictions are lifted, property will either have a lower value or no value at all.

METHODS OF ESTIMATING VALUE/APPRaisal PROCESS

SALES OR MARKET COMPARISON APPROACH

1. Also known as **THE MARKET DATA APPROACH**

2. Most suitable for PRE-OCCUPIED HOUSES AND VACANT LAND.

3. Value is estimated by using other comparable property that has been recently sold in the same general area. If the sold comparable has a superior feature in comparison to the subject property,

VALUATION AND MARKET ANALYSIS

then it is adjusted downwards, but if it has an inferior feature then it is adjusted upwards.

4. Appraiser gives emphasis to normal inflation, age of improvements, square footage, any good or bad features such as a garage, basement, bathrooms, fireplace, cracked foundation, evidence of termite infestation, etc.

Note: The best comparable is a **SOLD** comparable

Example: You are required to evaluate the subject property that has 2,800 sq. ft. and is similar to the sold comparable. The subject property does not have a garage. One square foot is worth \$120 and a 2 car garage is worth \$10,000.

Subject Property-For Sale



2,800 Sq.Ft.
No Garage



SOLD FOR \$ \$300,000
2,500 Sq.Ft.
2 Car Garage

Based on the **SOLD** house, the **Subject** property is worth **\$326,000**

1 sq.ft. is worth **\$120**
2 Car Garage is worth **\$10,000**
in this neighborhood

So 300 sq.ft. X \$120 = \$36,000
\$300,000 + \$36,000 = \$336,000
But it has NO Garage, therefore
\$336,000 - \$10,000 = \$326,000

Has 300 sq. ft. extra
300 sq. ft. X \$120 = \$36,000
\$300,000 + \$36,000 = \$336,000

But it has NO garage
\$336,000 - \$10,000 = **\$326,000**

Based on the sold property, the subject property is worth \$326,000

VALUATION AND MARKET ANALYSIS

5. When comparing property to others sold, at least 3 to 4 **SOLD** properties should be selected to compare instead of comparing to one only which may have been sold at exceptionally favorable terms or under duress.

6- Always compare apples to apples. If one property is situated on a lakefront, do not use the comparable that is across the street with only "lake access". If you have a one-story home, do not compare it to a two-story or a quad level home.

REPLACEMENT COST OR SUMMATION APPROACH

Most suitable for new property and property with little or no comparables, such as a museum, library, school, etc. In this method, the appraiser takes the following steps to appraise the property:

- A. Land is appraised without the building, using the market comparison approach.
- B. The cost of reconstructing the building as a new unit is estimated.
- C. The value of the land is then added to the value of the building.
- D. REPRODUCTION COST** - Is the cost to reproduce an exact duplicate of the same building using current materials and methods to produce a functional equivalent of the subject property.
- E. REPLACEMENT COST** - The cost of replacing a building with another that functions in a similar way but not a duplicate. This method is more suitable for appraising older structures since it may not be possible to find discontinued building material that would be used at the present time such as asbestos insulation or plumbing fixtures of a certain type.
- F. DEFERRED MAINTENANCE** - Existing maintenance and repair requirements that were due but put off.
- G. ACCRUED DEPRECIATION** - The amount of depreciation that has occurred between the time the improvement was built and the effective date of the appraisal.
- F. ECONOMIC LIFE** - Is the period of time during which the structure is expected to remain useful in its original function. This period is essential to calculating accrued depreciation.

The Cost Approach

Ex: New construction surrounded by existing older homes

Step:1 What is the land worth
Without the house?

The **market comparison** (market data) approach is used to determine the **land value**.

For example: **\$70,000**



We must determine
The cost of **NEW Construction**.
For example
\$120/s.f.

3000 s.f. x \$120
= \$360,000 for
the **NEW construction**
+ \$70,000 for
land
= \$430,000

METHODS OF DEPRECIATION

1. PHYSICAL DETERIORATION: Ordinary wear-and-tear such as roof leaks, problem with plumbing, electrical wiring, basement cracks, etc.

2. FUNCTIONAL OBSOLESCENCE: Outdated design and layout inadequacy, property may have served its purpose in the past but does not meet modern requirements such as commercial building that lacks parking, 4-bedroom house with one bathroom, etc.

3. EXTERNAL (economic, environmental) OBSOLESCENCE: Loss of value due to changes in society and the surrounding area such as presence of crime in neighborhood, pollution from factories, noise from airport, high unemployment, etc.

CURABLE OBSOLESCENCE: Can be corrected. Example, a house with no garage may have a large enough lot to add a two-car garage.

INCURABLE OBSOLESCENCE: Cannot be or not economically feasible to be corrected or modified. External obsolescence is considered to be the hardest to cure.

VALUATION AND MARKET ANALYSIS

INCOME APPROACH

CAPITALIZATION METHOD (BROKER ONLY)

1. Used to estimate value of income property.
2. VALUE = NET OPERATING INCOME ÷ CAPITALIZATION RATE.

A. NET OPERATING INCOME (NOI) = GROSS RENT - OPERATING EXPENSES

I. GROSS RENT: Potential annual projected gross income - Vacancy and rent loss + Additional income

II. OPERATING EXPENSES: Necessary annual costs to operate the project such as taxes, maintenance, insurance, utilities and management fees. Although interest is an expense, it is not considered an operating expense; neither are the vacancy factor, principal payments, capital improvements or special assessments.

Note: LOAN PAYMENTS are known as DEBT SERVICE, which include principal and interest. They are not included in calculating the net operating expenses.

B. CAPITALIZATION (CAP) RATE: The rate of return an investor would receive on investment.

Example (1): What is the NOI if the gross rent for the year was \$55,000 and the following expenses were considered: Taxes: \$4000/year, Insurance: \$3000/year, Utilities: 500/month?

Answer: UTILITIES: \$500 X 12 = \$6000/YEAR
\$55000 - \$4000 - \$3000 - \$6000 = \$42,000 NOI

Example (2): An investor is looking at a rate of return of 12% annually on his/her investment. The property has a gross income of \$26,000/yr. with estimated expenses of 40% of gross/yr. How much should this investor pay for this property?

Answer: NOI = \$26,000 - 40% = \$15,600
\$15,600 ÷ 12% = \$130,000

$$\begin{array}{r} \text{NOI} = 15,600 \\ \hline \text{Value} = \$130,000 \times \text{Cap} = 12\% \end{array}$$

Example (3): In the previous example, if the appraiser estimates that the Cap Rate in that market should be 10%, what would the value be?

Answer: \$15,600 ÷ 10% = \$156,000

Example (4): in the previous example, if the appraiser estimates the Cap Rate to be 8%, what would the value be?

Answer: \$15,600 ÷ 8% = \$195,000

VALUATION AND MARKET ANALYSIS

GROSS RENT / INCOME MULTIPLIER METHOD (BROKER ONLY)

- 1- Mostly suitable for a small income property such as a house, duplex, etc.
- 2- The method applies a multiplier to the estimated gross income of the subject property, the income is either based on the current rent roll of the property or a projection of what the property should earn in a competitive market.
- 3- Although the gross rent/income multiplier provides a fast and brief method of estimating the value, it does not take into consideration any operating expenses, vacancies, etc. therefore it may not be as reliable as the capitalization approach described earlier.
- 4- Value = GRM x Monthly or Yearly rent

Example: Property (1) was sold for \$100,000 and brought gross rents in the amount of \$10,000/yr. What would property (2) be evaluated at with \$15,000/yr. in gross rents?

Solution: G.R.M. = $\frac{\$100,000}{\$10,000} = 10$
 $10 \times \$15,000 = \$150,000$

C. COMPETITIVE/COMPARATIVE MARKET ANALYSIS CMA

1. An estimate of property value (conducted usually by the real estate agent) used to assist the seller in determining a listing price for the property by relying on sale and leasing data of comparable properties.
2. A CMA will not be relied upon by the lender in determining the amount of mortgage loan to be provided to the buyer.
3. According to Michigan State rules, an agent is authorized to provide the CMA only for the purpose of establishing a selling or leasing price for a property that s/he is contemplating placing on the market.
4. Methods used for selecting and adjusting comparables for many residential and some commercial properties are usually similar to those used by licensed appraisers, an agent who faces a complicated valuation task must seek an expert opinion from a licensed appraiser.

FINANCING

Financing (Salesperson 12 items/Broker 12 items)

- A. Basic concepts and terminology
 - a. LTV ratios, points, origination fees, discounts, broker commissions
 - b. Mortgage insurance (PMI)
 - c. Lender requirements, equity, qualifying buyers, loan application procedures
 - B. Types of loans
 - 1. Conventional loans
 - 2. FHA Insured loans
 - 3. VA guaranteed loans
 - 4. USDA/rural loan programs
 - 5. Amortized loans
 - 6. Adjustable-rate mortgage loans
 - 7. Bridge loans
 - 8. Owner financing (installment and land contract/contract for deed)
 - C. Financing and lending
 - 1. Lending process application through closing
 - 2. Financing and credit laws and rules
 - a) Truth in lending
 - b) RESPA
 - c) Equal Credit Opportunity
 - d) CFPB/TRID rules on financing and risky loan features
 - 3. Underwriting
 - a) Debt ratios
 - b) Credit scoring
 - c) Credit history
-

A. BASIC CONCEPTS AND TERMINOLOGY

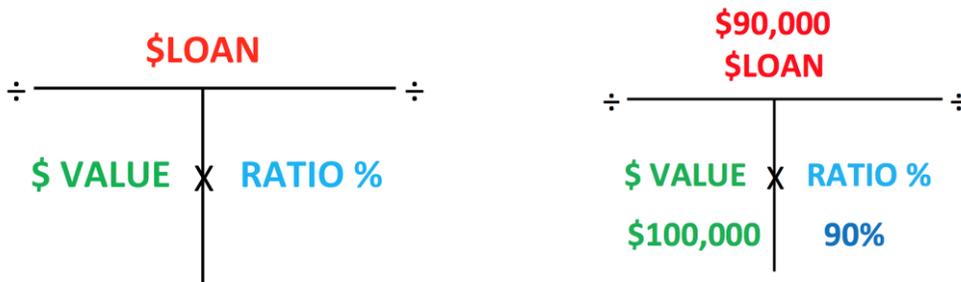
How Bank Financing works

- 1- **In a lien theory state** such as Michigan, the buyer holds the deed to the property during the mortgage term.
 - ☐ The buyer promises to make all payments to the lender and the mortgage becomes a lien on the property, but title remains with the buyer. The lender's lien is **discharged** once the loan balance is paid off.
 - ☐ Upon default of borrower, lender must foreclose to auction the property and get paid off.
 - ☐ **In title theory states**, lender becomes the titleholder and has the immediate right to possess and collect rents from the mortgaged property upon default.

FINANCING

Example-1: property sold and appraised for \$100,000, the lender will provide 90% loan. For The amount of the loan will be $\$100,000 \times 90\% = \$90,000$.

Buyer needs \$10,000 down payment (or 10% of purchase price).



You Buy the property for \$100,000
You Borrow \$90,000
You Need \$10,000  **\$10,000**
Down Payment

Or you can say that if the Loan is 90% ,
Down Payment is 10%

\$100,000 X 10% = \$10,000 Down Payment

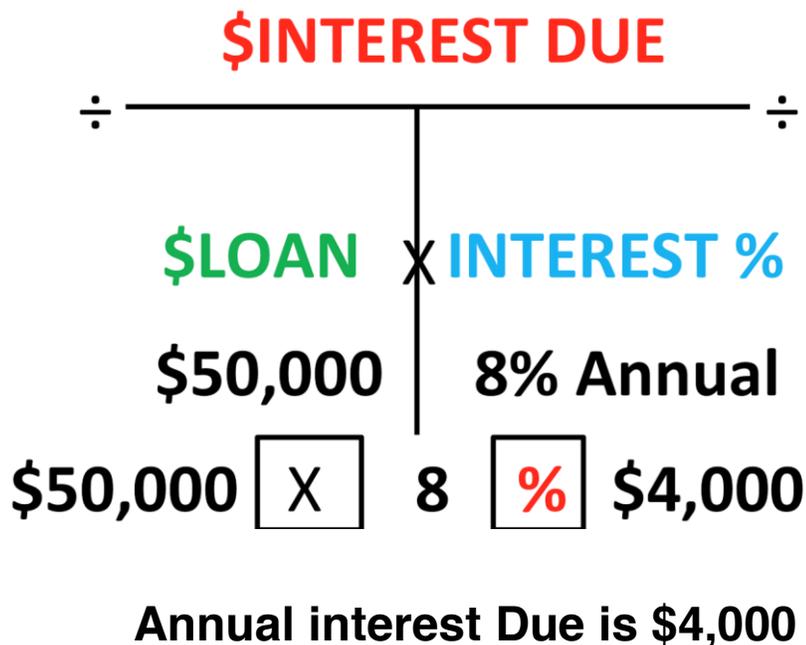
What if the Purchase Price is **\$105,000** But Appraiser Appraised Property for **\$100,000**?

Lender uses the **lower of the two amounts**
\$100,000 X 90% = \$90,000

You Buy the property for	\$105,000
You Borrow	\$90,000
You Need	\$15,000
	Down Payment

INTERESTCALCULATIONS

Example: Loan is 50,000, interest rate is 8%, annual interest due = ?



FINANCING

Example: Loan is \$80,000 at 6% interest rate, what is the annual interest, semiannual interest, quarterly interest and monthly interest?

$$\begin{array}{c} \text{\$4,800/Yr} \\ \text{\$INTEREST DUE} \\ \hline \text{\$LOAN} \times \text{INTEREST \%} \\ \text{\$80,000} \quad \quad \quad \text{6\% Annual} \end{array}$$

ANNUAL INTEREST = \$4,800
SEMIANNUAL INTEREST = \$2,400
QUARTERLY INTEREST = \$1,200
MONTHLY INTEREST = \$400

In the previous example, what if Mortgage Payment is \$450.00/m? How much is Principal and How Much is Interest and what is the loan balance upon making the first payment?

AMORTIZATION-The process of paying back a borrowed loan by making payments that includes principal and interest.

NEGATIVE AMORTIZATION: Is the gradual process of increasing the loan balance as a result of making payments that does not cover the interest due on a loan, causing the unpaid interest to accrued and be added to the loan balance.

Example: Monthly payment on a \$90,000 loan is \$500.00 out of which \$400.00 is interest and \$100.00 is principal. When a full payment is made, the principal balance of the loan is reduced to \$89,900 but if for some reason the borrower only paid \$350.00, then not only there will be no principal reduction on the loan, but the shortage in interest (\$50.00) will be added to the principal balance making it \$90,050.

This arrangement may be the result of a default by the borrower or the result of an agreement with the lender who accepts these low payments for a period of time.

Monthly Interest is $\$4,800 \div 12 = \$400/M$



Beginning Loan Balance is **\$80,000**
 -\$50.00 (Principal)
 = **New Loan Balance = \$79,950 Month 1**

In the previous example, what is the Loan Balance upon making the second payment?

$\$4,797/Yr \div 12 = \$399.75/M$
\$INTEREST DUE

÷	—	÷
\$LOAN	X	INTEREST %
\$80,000		6% Annual
\$79,950		6% Annual

Monthly Interest is $\$4,797 \div 12 = \$399.75/M$



Beginning Loan Balance is \$79,950

-\$50.25 (Principal)

= New Loan Balance is \$79,899.75 Month 2

POINTS

Each Point = 1% of the LOAN

POINTS may be charged to **discount the interest** on the loan or it may be assessed as a loan fee, for example, a 1point loan commitment fee or origination fee.

The Borrower may pay points to get a lower interest rate, for example, the loan is provided at an interest rate of 6% but if the borrower pays 2 points, the rate may drop to 5.5%.

Example: Price is \$100,000 and Loan is \$90,000. The borrower will pay 2 points, how much in points will be needed at closing and how much of a down payment will be needed at closing?

$$\begin{array}{c} \div \\ \hline \text{\$LOAN} \times \text{\# POINTS \%} \\ \hline \div \end{array}$$

\$1,800 Due at Closing

$$\begin{array}{c} \div \\ \hline \text{\$LOAN} \times \text{\# POINTS \%} \\ \text{\$90,000} \times \text{2 POINTS} \\ \text{2\%} \\ \hline \text{\$90,000} \boxed{\times} \text{2} \boxed{\%} \text{1800} \\ \hline \div \end{array}$$

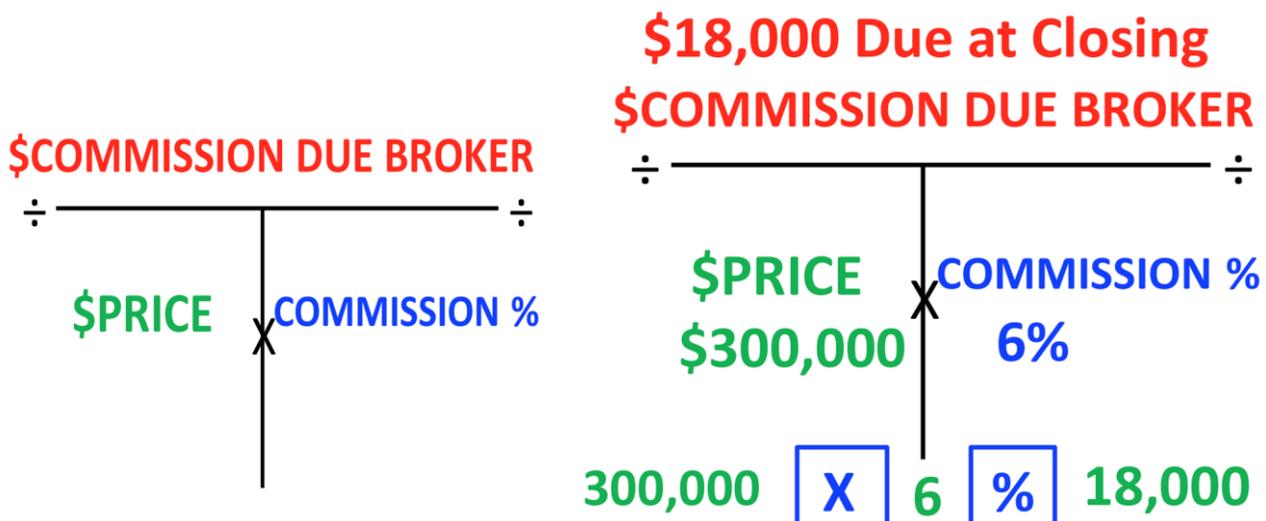
FINANCING

You Buy property for **\$100,000**
You Borrow **\$90,000**
You Need **\$10,000 Down Pmt.**
+ Points in the amount of \$1,800

Total Needed **\$10,000 + \$1,800 =**
\$11,800 At Closing

BROKER COMMISSION

Example-1: Selling price is \$300,000 at 6% commission. How much commission will the broker earn at closing?



FINANCING

Example-2: Selling price is \$300,000 at 6% commission for a total commission of \$18,000. Salesperson receives 60% of the total commission collected by the broker. How much is the salesperson's share of the commission?



Example-3: Selling price is \$300,000 at 6% commission for a total commission of \$18,000. 2 Brokers cooperate to sell the property at 50-50 split and each broker pays 60% split to agent. How much did the selling agent earn?

Answer: $\$18,000 \div 2 = \$9,000$

$\$9,000 \times 60\% = \$5,400$ is paid to both the listing and the selling agent

MORTGAGE INSURANCE (PMI)

- 1- A lender usually requires mortgage insurance when the LTV is more than 80%
- 2- To obtain mortgage insurance, an insurance premium is required.
- 3- A **conventional loan** requires PMI (private mortgage insurance). An **FHA loan** also requires an insurance premium known as MIP (mortgage insurance premium).

EQUITY: Is the difference between the present value of property and any remaining loan balance.

Example: Property was purchased 5 years ago for \$300,000 and has been recently appraised for \$350,000. At the time of purchase, the buyer borrowed \$250,000 to purchase the property and her present loan balance is \$230,000. How much equity does the buyer presently have in the property?

Answer: $\$350,000 - \$230,000 = \$120,000$

FINANCING

Qualifying Buyers – PITI

PITI = PRINCIPAL + INTEREST + TAXES + INSURANCE

Example: Bill and Sue make a total of \$80,000/yr. The lender allows no more than 39% of their annual income to be used towards PITI (principal, interest, and taxes, insurance). What is the maximum monthly PITI that they can afford if property taxes are \$7,200 and insurance \$1,200?

Answer: $\$80,000 \times 39\% = \$31,200/\text{yr.} \div 12 = \$2,600/\text{Month}$ total PITI

Question: How much of their income is allocated strictly to principal & interest (P&I)?

$\$7,200$ (tax) + $\$1,200$ (insurance) = $\$8,400 \div 12 = \$700/\text{month}$

$\$2,600 - \$700 = \$1,900$ left for P&I

B. TYPES OF LOANS AND SOURCES OF LOAN MONEY

CONVENTIONAL MORTGAGES

1- Mortgage loans in general can be divided into conventional (private) and non-conventional which are government backed loans. We will discuss the government loans in a different section of this course.

2- **CONVENTIONAL MORTGAGE (PRIVATE):** Not insured or guaranteed by the government. Approval is based on borrower's qualifications such as income /debt ratio, credit rating, etc.

A. NON – INSURED CONVENTIONAL LOAN: Usually involves a Loan to Value Ratio of 80% or less. Lender feels confident that upon default, a foreclosure sale will bring enough to satisfy the debt.

B. INSURED CONVENTIONAL LOAN: Insurance obtained privately (**PMI**) when Loan to Value Ratio exceeds 80% (as high as 90% to 95% is usually allowed). Upon foreclosure sale, insurance reimburses lender in case price obtained is less than balance.

FEDERAL HOUSING ADMINISTRATION INSURED LOANS (FHA)

1. Loans insured by the Federal Housing Administration. A government agency established in 1934 and operates under the Department of Housing and Urban Development's (HUD).
2. FHA does not insure the property; it only insures loans made by approved lending institutions. FHA insures the lender against losses resulting from nonpayment of borrower.
3. A typical loan involves a low down payment of approximately 3.5% or less and the remainder of the purchase price is financed.
4. Mainly directed at residential "owner occupied" properties. Some non-owner occupied programs may be available for certain properties.

FINANCING

5. **APPRAISAL REQUIREMENT:** Ordered by the lending institution, this determines Fair Market Value. Loan is based on the lowest of the purchase price or appraised value.
6. **FHA CODE VIOLATIONS (FHA CONDITIONS):** Appraisal report may list violations of FHA construction code; loan cannot be insured unless property is fixed up.
7. No prepayment penalty.
8. **MORTGAGE INSURANCE PREMIUM:** Paid as onetime fee or monthly, depending on program.
9. **ASSUMPTIONS:** Available based on lender's approval of new buyer i.e. formal assumption.
10. Programs: There are too many programs to list in this book; the most common is the 203B which allows the financing of 1-4 family dwelling.

VETERAN'S ADMINISTRATION GUARANTEED FINANCING (VA)

1. Came into effect as a result of the Servicemen's Readjustment Act of 1944.
2. Borrower must be a Veteran and must obtain a **"certificate of eligibility"**. SEE THE VA WEBSITE FOR MORE INFORMATION ON THE VA GUARANTEED FINANCING PROGRAM. THE VA WEBSITE IS WWW.VA.GOV. THE VA WEBSITE IS THE BEST SOURCE FOR THE LATEST INFORMATION ON THE VA GUARANTEED FINANCING PROGRAM. THE VA WEBSITE IS THE BEST SOURCE FOR THE LATEST INFORMATION ON THE VA GUARANTEED FINANCING PROGRAM.
3. No down payment is required.
4. Owner occupied homes qualify. One to four family units are allowed.
5. The Veteran's Administration guarantees the loan to the lender who forwards funds.
6. **FUNDING FEE:** Charged to raise money for the program.
7. **ASSUMPTIONS:** VA loans are assumable by non-veterans with lender's approval. The Veteran can go on to purchase another home using the **"second entitlement"**. The entire eligibility can be restored if another veteran assumes the loan.
8. **APPRAISAL REQUIREMENTS:** VA issues a "Certificate of reasonable value" (CRV) limiting the amount guaranteed by VA. Along with that, the home must be **fixed up** and free of any **VA code violations**.
9. No prepayment penalty.

USDA / DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT

- 1- Program assists approved lenders in providing low- and moderate-income households the opportunity to own adequate, modest, decent, safe and sanitary dwellings as their primary residence in eligible rural areas.
- 2- Eligible applicants may build, rehabilitate, improve or relocate a dwelling in an eligible rural area.

FINANCING

- 3- The program provides a 90% loan note guarantee to approved lenders in order to reduce the risk of extending 100% loans to eligible rural homebuyers

AMORTIZED AND PARTIALLY AMORTIZED (BALLOON) LOANS

FULLY AMORTIZED MORTGAGE: Mortgage Loan has been fully paid - off through the process of making regular monthly payments (debt service) including principal and interest over the term of the loan.

Example: A loan of \$150,000 at a “fixed rate” of 6% annual interest will be fully repaid over 30 years (360 payments) at a monthly payment of \$899.33/m. At the end of the 30 year term the balance on the loan will be zero.

BALLOON MORTGAGE / LAND CONTRACT): Also known as a “**partially amortized loan**”. It involves regular amortized monthly payments and a lump sum due at the end of loan term.

Example: A loan of \$150,000 at a “fixed rate” of 6% annual interest will be fully repaid over 30 years (360 payments) at a monthly payment of \$899.33/m. The lender indicated that although the \$899.33 per month is acceptable, the borrower must pay off the entire balance in no more than five years (60 payments).

The borrower will continue to make regular payments of \$899.33/m. The balance due at the end of five years is \$139,581.54, which will pay the loan off completely. This \$139,581.54 is known as a balloon payment.

If the lender would have required a seven-year balloon instead, the borrower will continue to make regular monthly payments and the balloon payment would be \$134,459.08 and so on.

ADJUSTABLE RATE MORTGAGE (ARM) LOANS

The loan interest rate fluctuates up or down during the loan term at certain “adjustment intervals” based on a pre-stated reference rate or index such as **U.S. Treasury Securities index, the London Interbank Offered Rate (LIBOR), etc.** The adjustments may affect loan payments and/or interest rates. Periodic adjustments are usually limited with a “cap” which limits an increase or decrease in interest rate.

Example: A loan of \$150,000 at an adjustable rate of 6% annual interest will be fully repaid over 30 years (360 payments) at a monthly payment of \$899.33/m if the interest rate will not change. The borrower agreed to an ARM with an adjustment period of one year and an annual cap of 2%. The loan carries a 6% cap for the life of the loan.

This means that the 6% annual interest rate may go up or down once a year but at a maximum amount of 2%, therefore, even if the market interest rates drop to 3%, the 6% loan rate will only drop to 4% because of the cap, on the other hand if the rates go up to 9% next year, the most that the loan interest rate will go up to is 8%, again because of the 2% cap.

Let's assume that many years later, the market mortgage rates increase to 14%; the most that the mortgage interest rate will go up to is 12% because of the 6% cap for the life of the loan.

FINANCING

REVERSE MORTGAGE

Lender pays borrower who must be at least 62 years old and have a principal residence, a loan in the form of either a lump sum, periodic payments, or a line of credit that do not have to be paid back unless the borrower sells the house, permanently moves out, or dies, whichever comes first. FHA insures the loan. **The purpose of a reverse mortgage is to supplement the mortgagors' income.**

HOME EQUITY LOAN (HEL)

Usually involves a fixed amount loaned to the property owner based on the equity in the home and secured by the property. It's usually involves a fixed interest rate and a fixed monthly payment.

Example: A homeowner has a Home appraised at \$300,000 with a \$200,000 mortgage balance. The lender agrees to provide a home equity loan but does not want the total amount of debt owed on the home to exceed 80% of value, i.e. \$240,000. The lender may approve a \$40,000 Home equity loan provided that the borrower can afford to make both monthly payments.

HOME EQUITY LINE OF CREDIT (HELOC)

A revolving line of credit (open ended loan) usually with an adjustable interest rate and monthly payment. Loan is provided to the homeowner based on the amount of equity in the home.

SUBPRIME MORTGAGE

A type of loan granted to individuals with poor credit histories (often below 600), who, as a result of their deficient credit ratings, would not be able to qualify for conventional mortgages.

BRIDGE LOAN

Is a temporary, short-term loan provided to a borrower who needs to purchase another property while trying to sell an existing one. The existing property usually serves as collateral for the loan. The bridge loan usually carries an above market interest rate and is tied up to the equity that the borrower has in the existing property.

SELLER/OWNER FINANCING

LAND CONTRACT (Installment sales contract, Contract for deed)

- A. Buyer (**VENDEE**) pays a down payment to seller (**VENDOR**) at closing; both parties sign a Land Contract. Balance is paid in monthly payments including interest.
- B. Seller retains title pending full payment of debt. Vendee's interest in property is **EQUITABLE TITLE**.
- C. Vendor delivers title to Vendee upon full payment of debt.

FINANCING

D. Although vendor remains to be the titleholder during the contract term, vendee is the lawful owner of property. Vendor is said to have **NAKED TITLE**, i.e. title with no ownership rights.



PRIMARY MARKET

PRIMARY LENDERS- PRIMARY SOURCES OF FINANCING :

1. Savings and loan associations S&L
2. Mutual Savings Banks
3. Commercial Banks
4. Credit Unions
5. Life insurance companies
6. Mortgage companies/brokers

A **Mortgage Broker** does not originate a loan. S/he coordinates between a borrower and a lender often shopping several lenders to find the most favorable terms.

FINANCING

SECONDARY MORTGAGE MARKETS

1. Although they do not lend money in a traditional sense, some sources refer to them as “secondary mortgage lenders”.
2. A lender that receives more demand for loans than funds available may decide to sell its interest in past loans and mortgages to the secondary market thus receiving more funds to generate more lending transactions.
3. If the lender has more funds than loan demands, the lender may use these funds to acquire other lender’s interest in mortgages so that funds may be invested.

4. FEDERALLY CHARTERED SECONDARY MARKETS:

A. THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION: ALSO KNOWN AS GINNIE MAE (GNMA).

1. Government Owned, division of HUD.
2. Purchases high-risk, low-yield loans such as FHA.
3. Guarantees Investment Securities issued by private offerors (banks, mortgage companies, etc.) and backed by pools of FHA and VA mortgage loans.
4. Raises funding by selling pass-through certificates which are security interests in a pool of mortgages.

B. THE FEDERAL HOME LOAN MORTGAGE CORPORATION, FREDDIE MAC (F.H.L.M.C).

1. Originally established to provide funding for federal savings and loans.
2. Presently provides secondary market for mortgage loans, primarily conventional loans.
3. Raises funding by selling bonds in pools that are formed by purchasing mortgages: the pool of mortgages secures bonds.

C. THE FEDERAL NATIONAL MORTGAGE ASSOCIATION, FANNIE MAE (FNMA).

1. Although chartered by the federal government, it is organized as a private corporation.
2. Purchases FHA, VA, as well as conventional mortgages and is the oldest and largest of all markets.
3. Buys a block or pool of mortgages from a lender in exchange for mortgage-backed securities in which lender may keep or sell.

FINANCING

MORTGAGE CLAUSES

DUE ON SALE (ALIENATION) CLAUSE: Provides that if the mortgagor transfers ownership to another person, the amount owed to the lender is immediately due in full.

ACCELERATION CLAUSE: Makes the full principal amount of the loan payable and due upon default of borrower.

PRE-PAYMENT PENALTY:

1. Lenders are in the business of lending money to earn interest.
2. When borrower pays off the loan early, a penalty may be due (only if stated in loan contract).
3. Purpose for the penalty is to discourage borrower from selling or refinancing to pay off the loan and on the other hand to compensate lender for loss of revenue.

MORTGAGE DISCHARGE (RELEASE/SATISFACTION): Issued and recorded by the lender as evidence of releasing the lien that the mortgage created at the time of financing the property.

C. FINANCING AND LENDING

LENDING PROCESS

- a. Loan application: Lenders usually use the Uniform Residential Loan Application (URLA), also known as Fannie Mae form 1003. The application asks for information about the property being purchased, the type of loan being used, as well as information about the borrower.

Within three business days of submitting the application, the borrower must be provided with a “**Loan Estimate**” which provides an estimate of mortgage loan terms and settlement charges.

- b. Mortgage processing: Loan processors collect a variety of documents relating to the borrower as well as the property being purchased. They will review the file to ensure it contains all of the documents needed for the underwriting process. Documents include bank statements, tax records, employment letters, the purchase agreement, etc.

The loan processor will also:

1. Order credit reports (if this hasn't been done already),
 2. Begin verifying income, assets and employment, and
 3. Order a property appraisal (must be ordered through a third neutral party known as the “appraisal management company”) to determine the value of the property.
- c. Mortgage Underwriting: The underwriter examines all of the loan documents prepared by the loan processor, to make sure it complies with lending requirements and guidelines and if so, a decision will be made to grant the loan.
 1. Lender will determine a borrower's qualification for the loan amount based on a percentage of gross income.

FINANCING

2. Debt-to-income ratio should not exceed 43% for a qualified mortgage (a qualified mortgage carries more stable features making it less likely to go in default and is considered more attractive to the secondary market, other types of mortgages may allow a higher debt-to-income ratio) .
3. To calculate the debt-to-income ratio, add up all the monthly debt payments and divide them by gross monthly income. The gross monthly income is generally the amount of money earned before taxes and other deductions are taken out.

Example: If you pay \$1500 a month for your mortgage and another \$100 a month for an auto loan and \$400 a month for the rest of your debts, your monthly debt payments are \$2000. ($\$1500 + \$100 + \$400 = \$2,000$.) If your gross monthly income is \$5000, then your debt-to-income ratio is 40 percent. ($\$2000$ is 40% of $\$5000$.)

Mortgage underwriters focus on the “three C’s” of underwriting — capacity, credit and collateral:

1. *Capacity* — Having the financial ability to repay the mortgage loan
2. *Credit* — Having a good history of repaying debts, as evidenced by the borrower’s credit reports and scores.
3. *Collateral* — Property serves as sufficient collateral for the loan based on the appraisal report issued by the appraiser.

4. Mortgage Loan Approval and Closing

- ☞ Once the underwriter approves the loan, they will issue a “clear to close” statement allowing the loan to be funded upon closing.
- ☞ All loan documents are sent to the title company that has been chosen to handle the closing.
- ☞ **At least 3 business days** before closing, borrowers will receive a **Closing Disclosure (TRID)**, Stating loan terms such as monthly payments as well as various closing fees.

CONSUMER FINANCIAL PROTECTION BERAU (CFPB) RULES ON FINANCING AND RISKY LOAN FEATURES

- 1- Protects consumers from irresponsible mortgage lending by requiring lenders to ensure prospective buyers have the **ability to repay** their mortgage.
 - a- Financial information has to be supplied and verified
 - b- A borrower has to have sufficient assets or income to pay back the loan.
 - c- Teaser rates can no longer mask the true cost of a mortgage.
- 2- Protects borrowers from risky lending practices such as “no doc” and “interest only” features.
- 3- Qualified Mortgage: Consumers will have greater assurance that they can pay back the loan.

Among the features of a Qualified Mortgage:

- a- No excess upfront points and fees
- b- No toxic loan features **such as terms that exceed 30 years, interest-only payments, or negative-amortization payments.**
- c- Cap on how much income can go toward debt generally set at 43% debt-to-income ratio with some exceptions.

FINANCING

TRUTH IN LENDING ACT, TILA (REGULATION Z)

1. PURPOSE:

- A. Credit institutions must inform borrowers of the true cost of obtaining credit for residential one to four family dwelling.
- B. Requires lender to use the Annual Percentage Rate (**APR**) that includes all interest charges, finance charges, commitment fees, origination fees, discount points, loan pre-payment charges, etc.
- C. The lender must provide a “**loan estimate**” that informs the borrower of the anticipated charges required at closing **no later than 3 business days after** submitting a loan application.. It requires the use of the “**closing disclosure**” to disclose the settlement costs to the buyer **at least 3 business days before** consummation of the loan.
- D. The Law allows a borrower to shop and compare loan terms of various lending institutions and avoid any hidden costs.

2. ADVERTISING REQUIREMENTS -TILA

- A. Concerned with truth in advertising.
- B. When advertising interest rates, lenders must use the annual percentage rate [APR]
- C. If the amount of interest is advertised in dollars or per annum interest; all finance charges must be included in the advertisement.
- D. **Triggering phrases / terms:** A broker who advertises property based on “seller financing” is prohibited from advertising “down payment”, “monthly payment”, “number of payments” or “amount of any finance charges” (also known as “triggering terms”) unless all financing terms are advertised as well.
- E. Advertising such as “low down payment”, “easy terms”, “assumption available”, etc. APR or cash price only is legal without including anything else in the ad.

Example: An ad reads: “You can buy this house on land contract \$2,000 down”.

This ad does not comply with regulation Z. The person should advertise this way: Purchase price is \$40,000.00, down payment is \$2,000.00, monthly payments are \$400.00, interest rate 10%, and number of payments is 190.

Example: An agent advertises: You can buy this house with reasonable interest rate and a low down payment. Price is \$59,900.00.

This ad complies with regulation Z, because the agent did not advertise more than the cash price of property. If s/he would have advertised the low amount of the down payment, then s/he must have disclosed all financing details.

FINANCING

3. THE RIGHT TO RESCIND A TRANSACTION

- A. When refinancing residential property (1 to 4 family dwelling) an owner may rescind the loan within 3 business days after closing date and receive refund of loan fees paid.
- B. The 3 day period starts after lender makes disclosure of legal right to borrower.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

- A. A Federal law administered by the Consumer Financial Protection Bureau (CFPB)
- B. The main objective is to protect homeowners by assisting them in becoming better educated while shopping for real estate services.
- C. Transactions covered are *first or second* **federally related** mortgage loans made on one to four family residences, condominiums and cooperatives, federally related loans such as FHA or VA or other government backed or assisted loans, loans from lenders with federally insured deposits, loans that are purchased by federally controlled **secondary mortgage markets**.
- D. The law requires certain procedures to be followed in closings, to inform the buyers and the sellers of their **charges and credits related to settlements. It prohibits kickbacks (i.e. payments when services have not been provided) involving “settlement service providers” such as lenders, real estate agents, title insurance services, appraisals, credit reports, inspections, surveys, and legal services.**

Example: Title Agency pays agent \$300 for every file he refers to them. Mortgage Company does the same. Both instances are examples of “kickbacks”.

INTEGRATED DISCLOSURE RULE (TRID)

- 1- TRID is the TILA / RESPA Integrated Disclosure Rule.
- 2- TILA is the Truth in Lending Act and RESPA is the Real Estate Settlement Procedures Act. The CFPB (Consumer Financial Protection Bureau) modified both rules in its TRID final ruling.
- 3- In addition, and **within 3 business days of receiving the loan application**, the lender must provide a “**loan estimate**” that informs the borrower of the anticipated charges required at closing. It requires the use of the “**closing disclosure**” (CD) to disclose the settlement costs to the buyer **at least 3 business days before** consummation of the loan.
- 4- Both the buyer and seller must receive Closing Disclosures (CD) that provides details of the transaction. The seller’s CD is provided by the settlement agent (such as the title company), the Buyer’s CD is provided by the lender unless the sale does not involve a loan, then the settlement agent is responsible for both CDs.
- 5- The Loan Estimate must be provided within three business days of receiving the loan application, and the prospective borrower then has 10 days to respond as to whether he or she wishes to proceed. Although the lender may pull a credit report, the lender is NOT permitted to verify or document the loan applicant’s claimed income before providing the Loan Estimate.

FINANCING

This may mean that initial “prequalification” of a borrower becomes fairly meaningless!

- 6- Any significant change to the loan (e.g. a different loan product, **switching from a fixed rate to an adjustable rate loan**, a change in APR, the addition of a prepayment) **triggers a new 3-day waiting period for the CD.**

EQUAL CREDIT OPPORTUNITY

- 1- An act that prohibits lenders from discriminating against borrowers because of **race, creed, color, national origin, age, receipt of public assistance, sex, marital status**, or the exercise of rights under the Truth-in-Lending Act.
- 2- Lender may not ask the candidate if they plan to have children or additional children, but creditors can ask about the number, ages, and financial obligations relating to all existing children.
- 3- Lender may not disallow regular sources of income, such as reliable veteran's benefits, welfare payments, Social Security payments, alimony, child support, etc.
- 4- Lender must inform the candidate if they have been denied or granted credit within 30 days of receiving their completed application. And give the specific reason(s) why one is denied credit or granted credit differently than under the terms for which they originally applied.

MORTGAGE FORECLOSURE

When the borrower is in default, the lender may move to auction off the property subject to mortgage lien.

DEED IN LIEU OF FORECLOSURE: Upon default, lender agrees not to go through foreclosure and accepts a deed from mortgagor surrendering property to lender in full satisfaction of debt.

Benefit to borrower: Avoid legal action, avoid deficiency judgment, and possibly save credit, depending on the agreement with the lender.

Benefit to lender: Take the property over without delay of legal action and redemption. Avoid legal expenses. Avoid possible damage to property.

SHORT SALE: A sale of distressed property that is approved by a lender who is willing to discharge the mortgage by accepting less than the loan balance owed.

Ex: Property was purchased for \$250,000 with a mortgage loan of \$225,000. Later the property declined in value and it is presently worth only \$170,000, yet the loan balance remains to be \$220,000. The lender may approve a “short sale” and agree to accept \$170,000 and discharge the mortgage.

A MORTGAGE MAY BE FORECLOSED IN THE FOLLOWING MANNER:

1. BY A CIVIL LAW SUIT IN CIRCUIT COURT (JUDICIAL FORECLOSURE)

- A. Filing a complaint in court.
- B. Notifying all the persons that have interest in the property.
- C. The court will hold a hearing and allow all parties to present their claim.
- D. Court will then order the sale of the property if lender prevails.

NOTE: This process can be lengthy and expensive; therefore it is not widely used.

FINANCING

2. FORECLOSURE BY ADVERTISEMENT

In order for this method to be employed, the mortgage must contain a **“POWER OF SALE BY ADVERTISEMENT”** clause-enabling lender to foreclose by advertising as follows:

A. Notice is given to the mortgagor by advertising in a legal newspaper that is circulated in the county where the property is located, once a week for four consecutive weeks.

B. A public auction is held by a sheriff to sell the property.

C. The property is sold to the highest bidder.

NOTE: if more than the amount owed by the mortgagor to the mortgagee is bid, the excess is paid to the mortgagor, but if highest bid is not enough to satisfy the loan then a **DEFICIENCY JUDGMENT** against the mortgagor is obtained to hold him/her personally liable for the difference. Delinquent property taxes take priority to the mortgage

D. SHERIFF'S DEED: Executed by sheriff to highest bidder and is recorded.

E. REDEMPTION PERIOD: Time allowed the mortgagor following sheriff sale to pay back the highest bidder to redeem property (typically 6 months for single family dwelling in Michigan, some exceptions may apply).

F. If mortgagor redeems property, sheriff's deed is void. Notice of redemption is made clear on public record and the existing mortgage is discharged.

G. WRIT OF RESTITUTION: Obtained from court, authorizing sheriff to evict occupants because property is not redeemed and the sheriff's deed has vested title in new purchaser.

H. REAL ESTATE OWNED by the lender (REO): If the current market value of the foreclosed property is less than the debt owed, investors will not bid at a foreclosure sale; therefore the lender will bid on the property and receive a sheriff's deed. And unless the property is redeemed, title will pass to the lender.

REVIEW QUESTIONS

Q - 1. Loan \$65,200, L / V = 65%, Price?

Q - 2. Commission due to broker \$5,432, based on 7%, Price?

Q - 3. Interest due in six months \$3,422 and annual interest is 6.25%, Loan?

Q - 4. Price \$75,450, loan ratio 80% with 2 points. How much does buyer need to close deal?

Q - 5. Price \$150,000 at 90% loan with 1 point. How much in points is due at closing?

Q - 6. Loan amount \$200,000 at 6% interest. Payment \$1,500/M. Balance upon making 1 payment?

FINANCING

ANSWERS

1.
$$\frac{\$65,200}{? = 100,307.69} \quad 65\%$$

$$65,200 \times 65\% = \$100,307.69$$

2.
$$\frac{\$5,432}{? = \$77,600} \quad 7\%$$

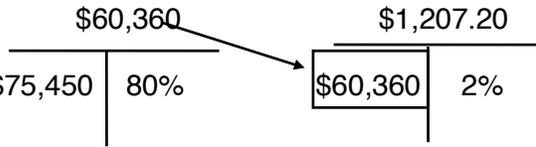
$$\$5,432 \times 7\% = \$77,600$$

3.
$$\$3,422 \times 2 = \$6,844 \text{ Interest Per Year}$$

$$\$6,844 \times 6.25\% = \$109,504$$

$$\frac{\$6,844}{? = \$109,504} \quad 6.25\%$$

4.
$$\frac{\$60,360}{\$75,450 \quad 80\%}$$

$$\frac{\$1,207.20}{\$60,360 \quad 2\%}$$


$\$75,450 \times 80\% = \$60,360$ is the loan

$\$60,360 \times 2\% = \$1,207.20$ Points Due

$\$15,090 + \$1,207.20 = \$16,297.20$ Total needed to close

5.
$$\$150,000 \times 90\% = \$135,000 \text{ loan amount}$$

$\$135,000 \times 1\% = \$1,350$ points due at closing

6.
$$\$200,000 \times 6\% = \$12,000/\text{yr.} \div 12 = \$1,000/\text{M interest}$$

$\$1,500 - \$1,000 = \$500$ applied to principal

$\$200,000 - \$500 = \$199,500$ balance upon making first payment

PRINCIPLES OF AGENCY

Principles of Agency (Salesperson 10 items/Broker 9 items)

- A. Agency and non-agency relationships
 - 1. Types of agents and agencies
 - 2. Other brokerage relationships (non-agents)
 - a) Transactional
 - b) Facilitators
 - B. Agent's duties to clients
 - 1. Fiduciary responsibilities
 - 2. Traditional agency duties (COALD)
 - 3. Powers of attorney and other delegation of authority
 - C. Creation of agency and non-agency agreements; disclosure of conflict of interest
 - 1. Agency and agency agreements
 - a) Key elements of different types of listing contracts
 - b) Key elements of buyer brokerage/tenant representation contracts
 - 2. Disclosure when acting as principal or other conflict of interest
 - D. Responsibilities of agent to customers and third parties, including disclosure, honesty, integrity, accounting for money
 - E. Termination of agency
 - 1. Expiration
 - 2. Completion/performance
 - 3. Termination by force of law
 - 4. Destruction of property/death of principal
 - 5. Mutual agreement
-

A. AGENCY AND NON-AGENCY RELATIONSHIPS

TYPES OF AGENTS AND AGENCIES

AGENT: A person who acts on behalf of another person known as the principal/client.

SUB-AGENT: An agent of an agent.

Example: A salesperson is the sub-agent of the broker who is the agent of the seller or buyer. A co-operating broker (selling broker) may become a sub-agent of the listing broker if they both agree to represent the seller.

SELLER'S AGENT: An agent who is under a **listing agreement** and who acts solely on behalf of the seller.

BUYER'S AGENT: An agent who is under a **buyer agency agreement** and who acts solely on behalf of the buyer.

DUAL AGENCY: Agent **represents both seller and buyer** in the same transaction but only with the knowledge and informed consent, in writing, of both the seller and the buyer.

TRANSACTION COORDINATOR/FACILITATOR: A licensee who is **not acting as an agent** of either the buyer or the seller. A licensee may act as a transaction coordinator upon full disclosure to all the parties to the transaction.

PRINCIPLES OF AGENCY

DESIGNATED AGENCY

- A. Broker may designate individual salespersons as exclusive agents of their clients.
- B. A broker and a client may enter into a designated agency agreement. In the absence of a written designated agency agreement, a client is considered to have an agency relationship with the broker and all affiliated licensees.
- C. If designated agents who are affiliated licensees represent different parties in the same real estate transaction, the brokers, and all supervisory brokers, are considered disclosed consensual dual agents for that real estate transaction.
- D. Two designated agents who are affiliated licensees may each represent a different party in the same transaction and shall not be considered dual agents.
- E. A designated agent shall not disclose confidential information of a client to any licensee, whether or not an affiliated licensee, except that a designated agent may disclose to any supervisory broker confidential information of a client for purposes of seeking advice or assistance for the benefit of the client.

SPECIAL AGENT: Principal authorizes agent to represent him/her in a *specific matter* and has given him/her certain limited authority to that effect. Broker is usually appointed as special agent of the client.

GENERAL AGENT: Agent is authorized to represent the principal in a *range of matters*. Such agency is created using a general “power of attorney” making the agent an attorney-in-fact.

POWER OF ATTORNEY: Legal document that authorizes a person to act on behalf of another as his/her **ATTORNEY-IN-FACT**. May authorize a person to offer for sale, sell, collect monies at a closing on behalf of the owner, etc.

FIDUCIARY RESPONSIBILITIES

1. A real estate broker operates as an agent of the seller or buyer.
2. Agent must legally obtain the right of representation by securing an EMPLOYMENT CONTRACT.
3. The employment contract is known as the **LISTING AGREEMENT** when working for the seller and a **BUYER AGENCY AGREEMENT** when representing the buyer.
4. The person who employs the broker is the **PRINCIPAL (CLIENT)** while the opposite party is the **CUSTOMER**.
5. **Principal** is owed trust and loyalty while the **customer** is owed fairness and honesty.
6. The relationship between an agent and his/her principal is called a **FIDUCIARY**, which is a relationship of loyalty and trust. The broker is also known to be the **FIDUCIARY**.
7. A salesperson employed by the broker is directly an agent of the broker; the broker is the salesperson’s principal.

PRINCIPLES OF AGENCY

8. Because the salesperson is loyal to the broker who in turn is loyal to the principal, **salespersons, associate brokers**, as well as **cooperating brokers** who operate as sub-agents, ultimately owe their fiduciary duty to the principal.

C. CREATION AND DISCLOSURE OF AGENCY AND NON-AGENCY AGREEMENTS

AGENCY AND AGENCY AGREEMENTS

KEY ELEMENTS OF DIFFERENT TYPES OF LISTING CONTRACTS

A. EXPRESSED AGREEMENT: Written listing or buyer agency contract. Verbally stating “I am your agent”.

B. IMPLIED (OSTENSIBLE) AGENCY: Leading a person to believe that agent is representing him by so acting or making statements such as telling the customer, “I protect your interest”, “I will get you the best possible deal from the other party”.

AGENCY DISCLOSURE: Provided by the agent to buyers, sellers, landlords and tenants (for residential property 1 – 4 unit dwellings or building sites used for the same purpose, including condominiums) in advance, before they provide agent any confidential information. Purpose is to state agent’s position as to which party is being represented.

PROCURING CAUSE: The effort that an agent contributes that ultimately results in a sale.

TYPES OF LISTINGS:

1. EXCLUSIVE RIGHT TO SELL:

The broker is employed as the sole agent of the principal and is promised a fee regardless of who procures a buyer, whether broker under contract, another broker, or even the owner.

2. EXCLUSIVE AGENCY LISTING:

Gives broker THE sole right to sell property, however, owner reserves right to sell by him/her without paying commission. If any other broker sells the property, listing broker is still protected.

3. OPEN LISTING:

A. Broker under contract is not the sole agent. It allows owner to list with as many brokers as desired or sell property herself without paying a commission.

B. In order for the broker to be paid, s/he must be able to prove that s/he was the procuring cause for the sale.

Example: Seller lists the property with four brokers. One of the four brokers sells the property; the seller will pay the broker who sold the property. The other three brokers will not receive a commission.

PRINCIPLES OF AGENCY

4. A NET LISTING / BUYER AGENCY

A. The broker is permitted to sell or buy property for the client at a set price. The Broker is permitted to sell the property for more money, or buy for the client at a lower price but keep the difference. NO COMMISSION OR PRICE IS SPECIFIED IN ADVANCE.

B. This listing is ILLEGAL in Michigan

Example: Property has fair market value of \$400,000, but the seller feels it is worth \$350,000. The broker promises seller the \$350,000 and is permitted by seller to ask any amount higher than \$350,000 and keep the difference. The broker does not tell the seller the true value and seller has no idea what the broker will be trying to sell the property for.

PROTECTION CLAUSE: A clause inserted in a listing agreement aimed at protecting the listing broker in the event that a buyer who was found by the broker returns to purchase the property, directly from the owner but after the expiration date of the listing agreement.

KEY ELEMENTS OF BUYER BROKERAGE/TENANT REPRESENTATION CONTRACTS

EXCLUSIVE BUYER/TENANT AGENCY AGREEMENT: Buyer/tenant agrees to be solely represented by a certain broker to locate property for sale or lease. Exclusivity means that the broker will earn a commission when the buyer/tenant buys or leases a property whether through the broker's efforts, or if the buyer/tenant locates property on his own, even if listed by another broker or offered through a private owner.

The agreement is usually structured to pay the broker a certain commission by the client but the broker **may agree to accredit the client** for commission received from the seller or the seller's agent.

For example, the agreement with the buyer may call for a 3% commission to be payable upon purchasing a property, but the buyer's agent is offered a 3% commission split by the listing agent, therefore, the money received from the listing agent will be accredited to the buyer's account resulting in offsetting the commission due from the buyer. If however, the buyer's agent is only offered 2% commission split by the listing agent, the buyer will owe his agent a 1% commission at closing.

This is not to say that a broker could not get paid by both buyer/tenant and seller/landlord (although unlikely) after proper disclosure and consent of all the parties.

The broker owes a fiduciary duty to the buyer/tenant and will treat the opposite party as a customer.

PRINCIPLES OF AGENCY

DISCLOSURE WHEN ACTING AS PRINCIPAL OR OTHER CONFLICT OF INTEREST

- 1- An agent who wants to buy property for his own account must make his position known.
- 2- An agent who represents a friend or relative must also disclose any conflict of interest that may exist.
- 3- This issue is further discussed under "State Rules and Regulations".

DUTIES TO CLIENT/PRINCIPAL (BUYER, SELLER, TENANT OR LANDLORD)

1. TRUST, LOYALTY AND SKILL:

A. An agent must be trustworthy and has his first obligation of loyalty to the principal. Principal's interest must always come before agent.

Example: As agent of seller, must not recommend a lower price to buyer.

B. Agent must notify principal of any information in his/her possession.

Example: Agent tells owner that asking price is too low.

C. **CONFIDENTIALITY:** Must not divulge client's sensitive information to customers unless authorized by client, even after the agency relationship has terminated.

D. **INDEMNIFICATION:** An agent is liable to indemnify a principal for loss or damage resulting from his/her act.

E. Must be knowledgeable with regards to marketing, negotiating, and current laws affecting client's rights and obligations. Must not give accounting, legal, or other expert advice outside the scope of agency.

F. Must avoid PUFFING, or exaggerating facts, which can be misleading.

PUFFING: The exaggeration of property qualities to an extent that exceeds reality such as saying: This new subdivision being built across the street is the largest, nicest, and most expensive in the state and will help double your property value! Unless the statement is proven to be correct, it is classified as Puffing which may result in **legal liability** against the agent.

Statements based on proven facts and/or opinions are acceptable, such as saying: Based on the public record, this house is the largest in this subdivision! Or saying: This house has one of the nicest layouts that I have seen in a long time! Those statements are not misleading.

2. CARE AND OBEDIENCE:

A. SPECIAL AGENT must exercise authority with care. Must obey instructions without substituting own judgment.

PRINCIPLES OF AGENCY

B. Offering property for sale, advertising, yard signs, etc. must be authorized by the owner.

3. ACCOUNTING FOR FUNDS

A. Agent must account for all funds received.

B. Agent must separate funds from his/her own personal money and account as required by law.

RESPONSIBILITIES OF AGENT TO CUSTOMERS AND THIRD PARTIES, INCLUDING DISCLOSURE, HONESTY, INTEGRITY, ACCOUNTING FOR MONEY

- 1- Although an agent has a fiduciary duty to the client, s/he must be fair and honest with the customer and any third parties.
- 2- Disclosure of nonmaterial facts to a customer such as a divorce, transfer, murder or suicide that may have taken place at the property can only be done with client's approval. But the agent cannot remain silent regarding material facts such as a bad furnace, Water heater, roof leak, etc.
- 3- State law requires agents to fully account for monies received from buyers and tenants as well. Full accounting must be provided and the broker's books can be audited by the state.

E. TERMINATION OF AGENCY

EXPIRATION

- 1- According to state law, a listing or a buyer agency agreement must have a definite expiration date, for example: this agreement should expire October 31st 20XX.
- 2- Upon expiration, the agency relationship is terminated unless the client signs a new agreement.
- 3- More discussion will follow under State rules and regulations.

COMPLETION/PERFORMANCE

When the contract with the client is fully performed, i.e. the listed property is sold, or if the buyer/client finds the property he is looking for, the contract with the client is considered to be terminated.

TERMINATION BY FORCE (OPERATION) OF LAW

- 1- If the contract with the client was signed under duress or as a result of fraud, a court of law may declare it to be null and void.

PRINCIPLES OF AGENCY

- 2- Under certain circumstances the listed property may be taken over by court such as in the case of foreclosure, bankruptcy, condemnation, etc.
- 3- The Insolvency (Bankruptcy) of the broker will result in termination of agency because the listing is a contract that **requires personal service**, therefore if the broker who has the listing (**not the salesperson**) is no longer in operation because of bankruptcy, loses his license, etc.

DESTRUCTION OF PROPERTY/DEATH OF PRINCIPAL

- 1- Destruction of property leads to a concept known as “**impossibility of performance**”. If the property burns down and gets demolished, this will be a reason to terminate the listing.
- 2- Death/insanity of the principal or the broker results in termination of agreement because the listing /buyer agency agreement **requires personal performance** of the parties. If either party cannot perform, the contract terminates.

MUTUAL AGREEMENT

Broker and Client may mutually agree to terminate the agency relationship for various reasons such as a decision by the owner to take the property off the market or a buyer/client who may choose to stop looking to buy property.

PRINCIPLES OF AGENCY



NOTICE OF DISCLOSURE REGARDING REAL ESTATE AGENCY RELATIONSHIPS (THIS IS NOT A CONTRACT)



Before you disclose confidential information to a real estate licensee regarding a real estate transaction, you should understand what type of agency relationship you have with that licensee.

As of January 1, 1994, Michigan law requires real estate licensees who are acting as agents of sellers or buyers of real property to advise the potential sellers or buyers with whom they work of the nature of their agency relationship.

A broker or sales person may function in any of the following capacities:

- represent the seller as an authorized seller's agent or subagent
- represent the buyer as an authorized buyer's agent or subagent
- represent both the seller and buyer as a disclosed dual agent, authorized by both the seller and buyer
- represent neither the seller or buyer as an agent, but provide services authorized by the seller or buyer to complete a transaction as a transaction coordinator.

SELLER'S AGENTS

A seller's agent, **under a separate written agreement with the seller**, acts solely on behalf of the seller. A seller can authorize a seller's agent to work with subagents, buyer's agents and/or transaction coordinators. A subagent of the seller is one who has agreed to work with the listing agent, and who, like the listing agent, acts solely on behalf of the seller. Seller's agents and their subagents will disclose to the seller known information about the buyer, which may be used to the benefit of the seller.

The duties that a seller's agent and subagent owes to the seller include:

- promoting the best interests of the seller
- fully disclosing to the seller all facts that might affect or influence the seller's decision to accept an offer to purchase
- keeping confidential the seller's motivations for selling
- presenting all offers to the seller
- disclosing to seller all information known to the seller's agent about the identity of all buyers and the willingness of those buyers to complete the sale or to offer a higher price

BUYER'S AGENTS

A buyer's agent, **under a separate written agreement with the buyer**, acts solely on behalf of the buyer. A subagent of the buyer is one who has agreed to work with the buyer's agent and who, like the buyer's agent, acts solely on behalf of the buyer. Buyer's agents and their subagents will disclose to the buyer known information about the seller which may be used to benefit the buyer.

The duties a buyer's agent and subagent owe to the buyer include:

- promoting the best interests of the buyer
- fully disclosing to the buyer all facts that might affect or influence the buyer's decision to tender an offer to purchase
- keeping confidential the buyer's motivations for buying
- presenting all offers on behalf of the buyer
- disclosing to the buyer all information known to the buyer's agent about the willingness of the seller to complete the sale or to accept a lower price

DUAL AGENTS

A real estate licensee can be the agent of both the seller and the buyer in a transaction, but only with the knowledge and informed consent, in writing, of both the seller and the buyer.

In such a dual agency situation, the licensee will not be able to disclose all known information to either the seller or the buyer. As dual agent, the licensee will not be able to provide the full range of fiduciary duties to the seller or the buyer.

The obligations of a dual agent are subject to any specific provisions set forth in any agreement between the dual agent, the seller and the buyer.

PRINCIPLES OF AGENCY

TRANSACTION COORDINATOR

A transaction coordinator is a licensee who is not acting as an agent of either the seller or the buyer, yet is providing services to complete a real estate transaction.

The transaction coordinator is not an agent for either party and therefore owes no fiduciary duty to either party. The transactional coordinator is not the advocate of either party and therefore has no obligation to "negotiate" for either party. The responsibilities of the transaction coordinator typically include:

- providing access to and the showing of the property
- providing access to market information
- providing assistance in the preparation of a buy and sell agreement which reflects the terms of the parties' agreement
- presenting a buy and sell agreement and any subsequent counter-offers
- assisting all parties in undertaking all steps necessary to carry out the agreement, such as the execution of documents, the obtaining of financing, the obtaining of inspections, etc.

DESIGNATED AGENCY

A buyer or seller with a designated agency agreement is represented only by agents specifically named in the agreement. Any agents of the firm not named in the agreement do not represent the buyer or seller. The named "designated" agent acts solely on behalf of his or her client and may only share confidential information about the client with the agent's supervisory broker who is also named in the agreement. Other agents in the firm have no duties to the buyer or seller and may act solely on behalf of another party in the transaction.

LICENSEE DISCLOSURE (Check One)

I hereby disclose that the agency status of the licensee named below is:

- Seller's agent (I will not be representing the buyer unless otherwise agreed in writing.)
- Buyer's agent
- Dual agent
- Transaction Coordinator (A licensee who is not acting as an agent of either the seller or the buyer.)
- None of the above

AFFILIATED LICENSEE DISCLOSURE (Check One)

- Check here if acting as a designated agent. Only the licensee's broker and a named supervisory broker have the same agency relationship as the licensee named below. If the other party in a transaction is represented by an affiliated licensee, then the licensee's broker and all names supervisory brokers shall be considered disclosed consensual dual agents.
- Check here if not acting as a designated agent. All affiliated licensees have the same agency relationship as the licensee named above.

Further, this form was provided to them before disclosure of any confidential information.

Licensee

Date

Licensee

Date

ACKNOWLEDGMENT:

This is a disclosure of agency and not a contract of agency.

By signing below, the parties confirm that they have received and read the information in this agency disclosure statement and that this form was provided to them before the disclosure of any confidential information specific to the potential sellers or buyers.

Potential

Date

Potential

Date

Disclaimer: This form is provided as a service of the Midland Board of REALTORS®. Please review both the form and details of the particular transaction to ensure that this form is appropriate for the transaction. The Midland Board of REALTORS® is not responsible for the use or misuse of this form.

PROPERTY DISCLOSURES

Property disclosures (Salesperson 5 items/Broker 5 items)

- A. Property condition
 - 1. Property condition that may warrant inspections and surveys
 - 2. Proposed uses or changes in uses that should trigger inquiry about public or private land use controls
 - B. Environmental issues requiring disclosure
 - C. Government disclosure requirements (LEAD)
 - D. Material facts and defect disclosure
-

PROPERTY CONDITION & DISCLOSURE

PROPERTY OWNER'S ROLE REGARDING PROPERTY CONDITION

SELLER'S DISCLOSURE STATEMENT (SD): Sellers of residential property (one to four family dwellings) must complete and sign seller's disclosure statement and deliver it to the **buyer when entering into a binding purchase agreement.**

If purchaser signs an offer without being provided with disclosure, **s/he may withdraw** from transaction before closing and receive deposit refund.

Real estate offices (or the real estate licensee) **must make the form available to the public** even if the person requesting the form is not a client of the agent.

Purchase agreement must identify that the buyer signed or signed for received the SD.

SELLER'S RESPONSIBILITY FOR WITHHOLDING INFORMATION

FRAUD: An intentional mis-statement of facts.

Example: Seller knows that property is situated on 2 acres but he states that he has 5 acres.

SILENT FRAUD (Non-Disclosure): The act of withholding information regarding concealed property defects from the buyer while the seller knows if such information is disclosed, it may result in losing the sale or offering a lower price.

Example: Seller paves over an old, leaky underground storage tank because he does not want a potential buyer to find out about it.

MISREPRESENTATION (INNOCENT MISREPRESENTATION): An innocent misstatement of facts.

Example: Seller believes that his property is situated on 5 acres and that is what he documents in the sale, but the truth is that the property only sits on 2 acres.

PROPERTY DISCLOSURES

Washer				
Dryer				
Lawn sprinkler system				
Water heater				
Plumbing system				
Water softener/conditioner				
Well & pump				
Septic tank & drain field				
Sump pump				
City Water System				
City Sewer System				
Central air conditioning				
Central heating system				
Wall furnace				
Humidifier				
Electronic air filter				
Solar heating system				
Fireplace & chimney				
Wood burning system				

Explanations (attach additional sheets if necessary):

UNLESS OTHERWISE AGREED, ALL HOUSEHOLD APPLIANCES ARE SOLD IN WORKING ORDER EXCEPT AS NOTED, WITHOUT WARRANTY BEYOND DATE OF CLOSING.

Property conditions, improvements & additional information:

1. Basement/crawlspace: Has there been evidence of water? Yes ___ No ___
 If yes, please explain: _____

2. Insulation: Describe if known _____
 Urea Formaldehyde Foam Insulation (UFFI) is installed?.....Unknown___ Yes___ No ___

3. Roof: Leaks?.....Yes___ No ___ Approximate age if known _____

4. Well: Type of well (depth/diameter, age, and repair history, if known): _____

Has the water been tested?Yes___ No ___
 If yes, date of last report/results: _____

PROPERTY DISCLOSURES

5. **Septic tanks/drain fields:** Condition, if known: _____

6. **Heating System:** Type/approximate age: _____

7. **Plumbing system:** Type: copper _____ galvanized _____ other _____
Any known problems? _____

8. **Electrical system:** Any known problems? _____

9. **History of infestation, if any:** (termites, carpenter ants, etc.) _____

10. **Environmental Problems:** Are you aware of any substances, materials, or products that may be an environmental hazard such as, but not limited to, asbestos, radon gas, formaldehyde, lead-based paint, fuel or chemical storage tanks and contaminated soil on the property
unknown _____ yes _____ no _____ If yes, please explain: _____

11. **Flood insurance:** Do you have flood insurance on the property?
unknown _____ yes _____ no _____

12. **Mineral rights:** Do you own the mineral rights?
unknown _____ yes _____ no _____

Other Items: Are you aware of any of the following:

1. Features of the property shared in common with the adjoining landowners, such as walls, fences, roads and driveways, or other features whose use or responsibility for maintenance may have an effect on the property?
unknown _____ yes _____ no _____

2. Any encroachments, easements, zoning violations, or nonconforming uses?
unknown _____ yes _____ no _____

3. Any "common areas" (facilities like pools, tennis courts, walkways, or other areas co-owned with others), or a homeowners' association that has any authority over the property?
unknown _____ yes _____ no _____

4. Structural modifications, alterations, or repairs made without necessary permits or licensed contractors?
unknown _____ yes _____ no _____

5. Settling, flooding, drainage, structural, or grading problems?
unknown _____ yes _____ no _____

6. Major damage to the property from fire, wind, floods, or landslides?
unknown _____ yes _____ no _____

7. Any underground storage tanks?
unknown _____ yes _____ no _____

8. Farm or farm operation in the vicinity; or proximity to a landfill, airport, shooting range, etc.?
unknown _____ yes _____ no _____

9. Any outstanding utility assessments or fees, including any natural gas main extension surcharge?
unknown _____ yes _____ no _____

10. Any outstanding municipal assessments or fees?
unknown _____ yes _____ no _____

PROPERTY DISCLOSURES

11. Any pending litigation that could affect the property or the seller's right to convey the property?
unknown_____ yes_____ no _____

If the answer to any of these questions is yes, please explain. Attach additional sheets, if necessary:

The seller has lived in the residence on the property from _____ (date) to _____ (date). The seller has owned the property since _____ (date). The seller has indicated above the condition of all the items based on information known to the seller. If any changes occur in the structural/mechanical/appliance systems of this property from the date of this form to the date of closing, seller will immediately disclose the changes to buyer. In no event shall the parties hold the broker liable for any representations not directly made by the broker or broker's agent. Seller certifies that the information in this statement is true and correct to the best of seller's knowledge as of the date of seller's signature.

BUYER SHOULD OBTAIN PROFESSIONAL ADVICE AND INSPECTIONS OF THE PROPERTY TO MORE FULLY DETERMINE THE CONDITION OF THE PROPERTY. THESE INSPECTIONS SHOULD TAKE INDOOR AIR AND WATER QUALITY INTO ACCOUNT, AS WELL AS ANY EVIDENCE OF UNUSUALLY HIGH LEVELS OF POTENTIAL ALLERGENS INCLUDING, BUT NOT LIMITED TO, HOUSEHOLD MOLD, MILDEW AND BACTERIA.

BUYERS ARE ADVISED THAT CERTAIN INFORMATION COMPILED PURSUANT TO THE SEX OFFENDERS REGISTRATION ACT, 1994 PA 295, MCL 28.721 TO 28.732, IS AVAILABLE TO THE PUBLIC. BUYERS SEEKING THAT INFORMATION SHOULD CONTACT THE APPROPRIATE LOCAL LAW ENFORCEMENT AGENCY OR SHERIFF'S DEPARTMENT DIRECTLY.

BUYER IS ADVISED THAT THE STATE EQUALIZED VALUE OF THE PROPERTY, PRINCIPAL RESIDENCE EXEMPTION INFORMATION, AND OTHER REAL PROPERTY TAX INFORMATION IS AVAILABLE FROM THE APPROPRIATE LOCAL ASSESSOR'S OFFICE. **BUYER SHOULD NOT ASSUME THAT BUYER'S FUTURE TAX BILLS ON THE PROPERTY WILL BE THE SAME AS THE SELLER'S PRESENT TAX BILLS. UNDER MICHIGAN LAW, REAL PROPERTY TAX OBLIGATIONS CAN CHANGE SIGNIFICANTLY WHEN PROPERTY IS TRANSFERRED.**

Seller _____ Date _____
Seller _____ Date _____

Buyer has read and acknowledges receipt of this statement.

Buyer _____ Date _____ Time: _____
Buyer _____ Date _____ Time: _____

(2) A form described in subsection (1) printed before March 8, 2000 that was in compliance with this section at that time may be utilized and shall be considered in compliance with this section until June 6, 2000.

History: 1993, Act 92, Eff. Jan. 10, 1994;-Am. 1995, Act 106, Eff. Jan. 1, 1996;-Am. 1996, Act 92, Imd. Eff. Feb. 27, 1996;-Am. 2000, Act 12, Imd. Eff. Mar. 8, 2000;-Am. 2000, Act 13, Imd. Eff. Mar. 8, 2000;-Am. 2003, Act 130, Eff. Jan. 1, 2004.

PROPERTY DISCLOSURES

LATENT DEFECT: A defect that is hidden but known to the seller only and cannot be revealed by an ordinary inspection of the agent or buyer, such as a crack in a basement wall that is concealed behind some drywall or paneling. A “**none disclosure**” of a defect will result in seller committing “**silent fraud**”.

PATENT DEFECT: A defect that can be discovered as a result of a reasonable inspection that is conducted on the property, such as an obvious roof leak, furnace problem, etc.

LICENSEE’S ROLE REGARDING PROPERTY CONDITION

- 1- If licensee is aware of certain property defects, licensee has a duty to disclose the information to the buyer even if licensee was a seller’s agent.
- 2- Licensee must encourage the seller to disclose all known defects even if the defect is not addressed in the seller’s disclosure statement.

STATE POSITION REGARDING DISCLOSURE: A licensee’s disclosure of material facts in the property shall not be considered grounds for disciplinary action by the Department against the licensee, despite a claim by the seller that such disclosure constituted disloyalty to the seller.

MATERIAL FACTS RELATED TO PROPERTY CONDITION OR LOCATION

MATERIAL FACTS: Have direct effect on value such as a leak in the roof, pollution, a bad furnace, etc. It may not be a defect but an issue that a buyer must know such as the fact that the seller has made an addition to the property without a permit or has an ongoing legal problem with a neighbor or the association. Material facts must be disclosed to the buyer.

NON-MATERIAL FACTS: Have no effect on value such as the reason for the sale, seller is sick, getting a divorce, seller lost job and is desperate for money, or, for example, that a murder or suicide has occurred in the house. No duty is imposed to disclose. In fact, as agent of seller, you will jeopardize seller’s bargaining position by voluntarily disclosing such unnecessary information.

PROPERTY DISCLOSURES

ENVIRONMENTAL ISSUES REQUIRING DISCLOSURE LEAD PAINT DISCLOSURES

- 1- As discussed earlier under the section “**land use controls and regulations**”, a property may have certain environmental hazards that must be dealt with when selling or leasing that property.
- 2- Environmental hazards may also exist outside the property such as a nearby dump, air pollution a nearby factory, oil refinery, Storage tanks that are buried outside the property, and so on.
- 3- The seller’s disclosure statement addresses certain issues but the fact remains that if the seller or agent knows of any hazards, full disclosure is required. Keep in mind that the seller’s disclosure statement only applies to **residential property (1-4 family dwellings)**, not that a seller of commercial property or vacant land could not voluntarily use it, but remains unlikely that it will be used in other than residential sales.

10. Environmental Problems: Are you aware of any substances, materials, or products that may be an environmental hazard such as, but not limited to, asbestos, radon gas, formaldehyde, lead-based paint, fuel or chemical storage tanks and contaminated soil on the property
unknown_____ yes_____ no _____ If yes, please explain: _____

Contracts (Salesperson 13 items/Broker 13 items)

Placeholder text for contract items, consisting of multiple lines of illegible characters.

A. GENERAL KNOWLEDGE OF CONTRACT LAW

REQUIREMENTS FOR VALIDITY

- 1- **OFFER AND ACCEPTANCE:** Requires “Mutual Assent” also known as “Meeting of The Minds”. The contract has to show a clear intent to form a contract as a result of an offer that is made by an “offeror” and acceptance by the “offeree”.
 - a- The parties must agree on all the terms of the contract and understand all items. Acceptance of an offer or a counteroffer must be absolute and not partial. Any changes made to the offer will render the offer “null and void”.
 - b- Offer is normally deemed accepted when acceptance has been communicated back to the offeror before the expiration of the time limit stated in the offer. Once accepted by the seller, no other offers can be accepted unless specifically allowed by the contract or possibly accepted as a “**back-up**” offer.
 - c- An **offer or counteroffer** may be **REVOKED** by the offeror prior to the offeree’s acceptance being communicated back to her.

Counteroffer: is an offer that is made by one of the parties to the contract in response to a previous offer that is received. For example, the seller has listed the property for \$300,000 and the buyer offers \$280,000, the seller sends a counteroffer in the amount of \$290,000 and the buyer has a choice of either accepting the \$290,000 offer or sending a counteroffer in the amount of \$285,000 and so on and so forth.

Sending the counteroffer means that the offeror has rejected the earlier offer received from the other party. Therefore, sending \$290,000 counteroffer means that the \$280,000 offer has been rejected. If the buyer simply rejects the \$290,000 counteroffer and does not send a counteroffer to the seller, that means the end of the transaction and the buyer has the right to ask for a deposit refund.

CONTRACTS

If, at a later date, the seller changes his mind and finally decides to accept the \$280,000 original offer, it may be too late and he must see if the buyer is willing to make a \$280,000 offer again because the original offer does not exist anymore.

Methods of creating a counteroffer

- 1- Make the required changes on the existing offer that you do not agree with, initial the changes and send it to the other party. If the other party agrees with your changes, s/he can initial those changes, which finalizes the agreement. The other party may not agree with your changes and again make new changes on the counteroffer, initial it, and send it to you and now it's up to you to either initial those changes or change them again and so on and so forth. Too many changes make the offer look confusing and sloppy but still legal.
- 2- Reject the existing offer and draft a new offer (clearly marked as a counteroffer) to be sent to the other party, and see if s/he accepts or may send you another counteroffer and so on.

Multiple offers and counteroffers

- 1- In the event that the seller receives multiple offers, s/he may only accept one. Any additional offers that the seller wishes to accept must be clearly marked as a **backup offer**.
- 2- It is not recommended that a seller sends multiple counteroffers to multiple buyers because what if all of them got accepted? How can the seller sell the property to multiple buyers?
- 3- If several buyers want to buy the same property and the seller does not like any of their offers, he may notify all of them with a certain deadline, by which, they can submit their **highest and best** offer to the seller, and the seller can then choose *one* offer to accept.

Electronic signature and paperless transactions

- 1- Parties to a contract may agree to abide by electronic/paperless documents. That fact should be stated in writing.
- 2- An electronic/digital signature is as enforceable as an ink signature.

“Bottom Lining” a contract - There is a misconception that a purchase agreement is not binding until “bottom lined.” Actually, an accepted purchase agreement is binding upon the parties once an offer is accepted by the seller and the **buyer is so notified**. The “bottom line” signature serves only as **verification** that the signed purchase agreement has in fact been provided to the buyer.

R 339.22307(3) *seller, the licensee shall promptly deliver true executed copies of the acceptance to the purchaser and seller.*

Because an offer may be revoked by the offeror prior to being notified of the offeree's acceptance, bottom lining may serve as proof that a buyer had actually been notified of the seller's acceptance and it is too late to revoke the offer without consequences. That being said, there is no state rule that requires bottom lining. If, for example, the parties have agreed to **electronic communications**, an emailed, accepted offer will satisfy the state requirement and will serve as proof that an offeror has been notified of the offeree's acceptance. This is true for both offers and counteroffers, i.e. if a seller wishes to withdraw a counteroffer, s/he may do so before receiving notice that the counteroffer has actually been accepted (signed) by the buyer.

AMENDMENT: A contract used to amend (change) the terms of a purchase agreement when such changes are necessary after an offer has successfully been negotiated and accepted by the parties, but before the closing.

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It should not be confused with an “**Addendum**” (Addenda for plural) which is a **rider** or addition to an existing contract such as a list of personal property that is added to a real estate purchase agreement.

2- VALUABLE CONSIDERATION: Parties to the contract promise to provide something of value. Consideration may be monetary or equivalent to money such as a “note”, “love and affection” or a promise to act or not to act (forbearance), etc. there is no minimum amount of money set by law. **Valuable consideration is also known as Earnest Money Deposit (EMD).** The promise of consideration exchanged in a contract could be UNILATERAL or BILATERAL.

A. **UNILATERAL CONTRACT:** A promise is exchanged for an act. **Example:** Option Contract.

B. **BILATERAL CONTRACT:** A promise is exchanged for another promise. **Example:** An accepted offer to purchase, a signed lease, etc.

3- LEGAL CAPACITY: Persons entering a contract must have legal capacity, also known as “**contractual ability**”, i.e., of sound mind and legal age. A person who is severely intoxicated, suffers a drug dependency, Alzheimer disease, Dementia, etc. may lack contractual ability.

Illiterate persons are considered competent as long as they enter the contract with full understanding and sign by placing an X mark in the presence of one witness.

4. LEGAL OBJECTIVE: A contract for an illegal purpose is void.

ENFORCEABILITY OF CONTRACTS:

1. VALID CONTRACT: Legally binding; one that contains all the necessary contractual elements.

2. VOID CONTRACT: Missing an essential element, may not be enforced against one party by the other.

Example: You contract with a non-licensed person and promise to pay a real estate commission. The contract is void.

3. VOIDABLE CONTRACT: Can be voided or enforced by one party to the transaction who may have entered the contract under duress or was misled which results in being legally injured.

Example: Seller lies about the size of a building but later the building proves to be worth twice as much. The buyer can choose to enforce the contract instead of declaring it “void” due to fraud.

STATUTE OF FRAUDS: Requires certain contracts to be in writing in order to be enforceable. Also requires parties to sign contract to become bound by its terms.

STATUTE OF LIMITATIONS: Law that allows a specific time limit during which the parties to a contract may bring legal suit to enforce their rights after which time such rights are lost.

EXECUTORY CONTRACT: A contract that establishes duties to be performed by the parties on a specified **future date**. The contract **remains executory** as long as it has not been fully performed such as a purchase agreement, a lease contract, a land contract, etc. once performed, the contract is

CONTRACTS

considered to be **executed**, i.e. terminated. For example, a **purchase agreement** is considered executed upon closing the transaction.

CONTINGENCIES

A contingency is a condition placed in a contract allowing a party to back out of the contract in the event the stated condition(s) are not met. A contingency may also be referred to as an “**escape clause**”.

Example 1: An offer to purchase is subject to obtaining financing. If the buyer diligently tries and is rejected by the lender, s/he can choose to cancel the agreement, get a deposit refund and the property is back on the market.

Example 2: Seller receives an offer from buyer (1) that is subject to the sale of the buyer's house. The seller wishes to accept but does not want to be at the mercy of the buyer who may not sell his house anytime soon. The seller counters by adding an “escape clause” stating: in the event that the seller receives a second good offer from buyer (2), he will give the first buyer 72 hours to either remove the “house selling” contingency and proceed with the purchase, otherwise the seller has the right to declare the first offer “null and void” and sell to the second buyer.

TERMINATION OF CONTRACT:

A. PERFORMANCE: The purpose for which the contract was established has been satisfied. For example, a purchase agreement is performed at closing. A listing agreement is performed upon the sale of the property.

B. RESCISSION: The cancellation of an already signed contract, returning to status quo.

Example: Regulation Z allows an owner who is refinancing residential property to rescind a loan within three banking days after closing the loan, for a full refund of all fees paid.

C. OPERATION OF THE LAW:

- 1- **Termination because of an illegality:** The contract may have been signed as a result of fraud; a party was acting under duress or was a minor, or the expiration of the statute of limitation.
- 2- **Impossibility of performance:** Such as in the case of destruction of premises that is the subject of a listing agreement, purchase agreement, or a lease.
- 3- **Termination by death or insanity:** If the person who is liable to perform under a contract dies or becomes legally insane the other party can cancel.

Example: A broker is hired to sell property under a listing agreement. A month later, the broker is no longer in business, becomes insane, or dies. The listing agreement will be terminated. Death, insanity, insolvency of the salesperson has no effect on the validity of the listing because it is signed between the seller and the broker not between seller and salesperson.

D. LEGAL CONTINGENCY: The contract may specifically state that if the buyer, for example, could not get certain financing, he may have the option to declare the purchase agreement null and void.

E. EXPIRATION of contract

F. REVOCATION by offeror before the offer is accepted.

CONTRACTS

G. REJECTION by the offeree who receives an undesirable offer.

B. CONTRACT CLAUSES

DURESS: To use force, threats or violence to force someone to enter into a contract.

UNDUE INFLUENCE: A situation created when in a close and confidential relationship one party has taken advantage of another to influence him/her to such a degree that freely given consent and understanding has been seriously impaired.

Example: A buyer calls upon the courts to rescind a purchase agreement because the seller's agent misled the buyer to believe that he is acting on his behalf and that the contract was in the buyer's favor.

SPECIFIC PERFORMANCE: Legal action taken to obtain a court order directing the breaching party to perform under the terms of the contract as agreed.

Example: Seller refuses to close the transaction after accepting a purchase agreement. Buyer may have the option to sue the seller, legally compelling him to close the transaction.

LIQUIDATED DAMAGES: An amount of money paid to a party in the contract to fully satisfy or "liquidate" any damages suffered.

RESCISSION [to rescind (v)]: The termination of a valid contract, and returning to "Status Quo"

EQUITABLE TITLE: Legal interest that buyer acquires in property after the signing of a sales contract (purchase agreement) by all parties that gives her the legal right to compel the seller to deliver title to property when the buyer pays the entire purchase price.

Also, the right given to the purchaser on the land contract (Vendee). See 14F

TIME IS OF THE ESSENCE: A clause that is added when the time limit expressed in the contract is not flexible; the contract must be performed on or before a certain deadline. The contract will terminate exactly at the deadline stated unless the parties to the contract agree to extend the time limit.

Example: If you were supposed to meet your client at 3 PM but got stuck in traffic, you can probably arrive 10 minutes late with no problem. But if you had a train or a plane to catch, can you be 10 minutes late? Therefore, when the purchase agreement states: closing date is on or before October 10, 20XX, "time is of the essence", a court of law will not grant any flexibility in case the buyer wants to close a week later.

BREACH OF CONTRACT AND REMEDIES FOR BREACH

1. A breach is a violation of any of the terms or conditions of a contract without legal excuse.
2. Upon default, the innocent party may do the following:
 - A. The buyer may ask for a refund of his money.
 - B. The seller may keep the buyer's deposit as "liquidated damages".

CONTRACTS

- C. Either party may sue for damages.
- D. Either party may sue for "specific performance".

ASSIGNMENT AND NOVATION

1. TO ASSIGN (verb): To transfer one's rights and obligations to another.

ASSIGNMENT (noun): A legal instrument used to pass or transfer rights and obligations from one party under contract to another. Real Estate contracts are usually assignable unless specifically prohibited in the contract, or if the contract calls for personal performance such as in the case of a listing agreement, then assignment will not be available.

1. The person who assigns his rights is called the ASSIGNOR.
2. The person receiving the rights (assuming the rights) is the ASSIGNEE.

NOTE: Although a contract has been assigned, the assignor may still be liable to meet the terms of the contract if the assignee does not, unless the assignor is specifically released of obligation in writing.

2. NOVATION OF CONTRACT: The substitution of a new contract in place of an existing one or the substitution of a party in place of another who becomes obligated under a new contract. For example, refinancing an existing loan with a new one where the obligation under the old loan is extinguished, or terminating an existing lease and replacing it by signing a new lease with another tenant at possibly more favorable terms.

OPTIONS

OPTION CONTRACT

1. A **unilateral contract** by which an **OPTIONOR** (generally an owner) gives an **OPTIONEE** (a possible purchaser/buyer or lessee) the right to buy or lease the owner's property at a fixed price for a stated period of time. It requires the optionor to sell (perform) if the optionee chooses to exercise the option.
2. The optionee pays a non-refundable option fee for acquiring the right to the option and assumes no obligation to exercise the option.
3. Usually assignable by the optionee to other interested parties.
4. The optionee does not agree to buy; s/he only reserves the right to buy.

LEASE WITH OPTION TO BUY: A tenant signs a lease on property giving her the right (option) to purchase it at a certain price and terms during a set duration of time. The tenant is only obligated for the initial lease term. No further obligation exists. If the tenant decides to exercise his option, the lessor must perform.

For example: Tenant signs a one-year lease with an option clause allowing the tenant to purchase the property for \$250,000 on or before lease expiration. The tenant is obviously obligated for the one-year lease but there is no obligation to purchase the property. If the tenant decides to exercise her option, she will simply notify the landlord of her intention and the landlord is obligated to sell the property at the price and terms set in the option.

Note: A lease and may carry an **option to renew** the lease. For example: A one-year lease may carry an option to renew for an additional year at a set price and terms.

LEASING & PROPERTY MANAGEMENT

Leasing & Property Management (Salesperson 3 items/Broker 4 items)

- A. Basic concepts/duties of property management
 - B. Lease Agreements
 - 1. Types of leases, e.g., percentage, gross, net, ground
 - 2. Key elements and provisions of lease agreements
 - C. Landlord and tenant rights and obligations
 - D. Property manager's fiduciary responsibilities
 - E. ADA and Fair Housing compliance in property management
 - F. Setting rents and lease rates (BROKER ONLY)
-

A. BASIC CONCEPTS

LEASE: An agreement for possession of land that belongs to the LESSOR (landlord) for a certain period of time in consideration of a payment of rent or other income by the LESSEE (tenant).

LEASEHOLD: Is the legal interest that a tenant/lessee has in leased premises. The **landlord/lessor** is usually the holder of a **fee simple estate** and has a reversionary right to the property once the tenant/lessee vacates the premises.

DUTIES OF A PROPERTY MANAGER:

- a- Locate tenants to fill in vacancies in the managed property
- b- Supervise property maintenance and pay necessary bills as needed
- c- Work with tenants to resolve complaints
- d- Analyze comparable market rents to set the right lease rates for the managed property
- e- Collect rent and be held accountable to the owner through an accurate bookkeeping system

TYPES OF TENANCY

1. ESTATE (TENANCY) AT WILL:

A. Estate for an Indefinite/Undetermined duration usually continues month to month with consent of landlord and tenant.

B. Either party can terminate occupancy by giving the other a notice.

2. ESTATE (TENANCY) FOR YEARS:

A. A lease is created with a certain predetermined duration of time.

B. All parties are obligated to meet the terms of the lease.

3. ESTATE (TENANCY) FROM PERIOD TO PERIOD:

A. Also called an estate from year to year or periodic estates.

B. Involves automatic equal renewals in the lease. It may be created by special contract or simply upon the termination of an "estate for years" where the lease stipulates that, upon lease termination, the tenant may stay (hold over) on a month to month basis, or year to year basis or whatever the lease calls for.

LEASING & PROPERTY MANAGEMENT

4. ESTATE (TENANCY) AT SUFFERANCE:

Tenant occupies the premises with the landlord's consent but later loses such consent.

B. LEASE AGREEMENTS

TYPES OF LEASES

A. NET LEASE: More common in commercial leasing, the tenant pays rent, plus some or all of operating expenses such as property taxes, insurance, maintenance, etc. Referred to as a TRIPLE NET lease.

B. GROSS LEASE: More common in residential housing. Provides that tenant pays a fixed amount of rent and landlord pays operating expenses, such as maintenance, taxes, insurance, etc.

The lease may contain increases based on future expenses in relation to property taxes, insurance and maintenance. Increases specified using an **ESCALATION CLAUSE**.

C. PERCENTAGE LEASE:

1. Normally used for retail outlets and department stores.
2. Paid in proportion to gross sales of the leased retail establishment

3. BASE RENT: Specified as a minimum, plus a percentage of the gross sales.

Example: Department store is leased for \$120,000/yr. base rent plus 1% of gross sales. If store revenue were \$10,000,000/yr., percentage rent would be \$100,000 in addition to base rent

D. GRADUATE LEASE (STEP-UP LEASE): Pre-planned rent increases scheduled at certain intervals and described in an **ESCALATION CLAUSE**. More popular in commercial leasing especially when the landlord is anxious to fill in vacancy. Used to attract tenants and help them get established by lowering rent payments at the beginning of the lease term.

Example: A five year lease starts at \$500/month for the first year, \$800/month for the second year, and \$1,200/month thereafter for the third, fourth and fifth years.

E. INDEX LEASE: Provides for rent adjustments based on a predetermined index such as the consumer price index, cost of living index, or other index.

F. GROUND LEASE (LAND LEASE): Lease of land that allows for erection of a building, usually a long term net lease. Tenant agrees to pay all expenses on land. Also it is found in mobile home parks where land is leased to place a mobile home on it. Farmers may also utilize a land lease when they lease additional acreage to farm.

G. OIL AND GAS LEASE: Owner executes a lease to a company who searches for oil and gas and receives a percentage of the profits (royalty).

LEASING & PROPERTY MANAGEMENT

NOTE: The previous types of leases merely describe “features” in a lease that can be combined together. For example, a gross lease may also be an index lease or a net lease may be a step up lease and so on.

KEY ELEMENTS AND LEASE PROVISIONS

THE SUB-LEASE CLAUSE:

1. Prohibits tenant from sub-leasing without consent of landlord.
2. The sub-lease process:
 - A. Tenant may act as a landlord and sublease a portion or all of the premises s/he occupies to another tenant.
 - B. Tenant is known as the SUB-LESSOR and the new tenant is the SUB-LESSEE
 - C. The interest of the sub-lessor is known as a SANDWICH LEASE.
 - D. Sub-lessor is not usually relieved of liability. In case new tenant [sub-lessee] damages property, sub-lessor is liable (unless sub-lessor is specifically released of liability).

Example: Tenant rents a four-bedroom house for \$600 and subleases one bedroom to a college student for \$200 a month. The college student is the sub-lessee, the tenant is the sub-lessor and the owner of the four-bedroom house is the lessor.

THE ASSIGNMENT OF LEASE CLAUSE:

1. Prohibits assignment of lease without lessor's consent.
2. The assignment of lease process:
 - A. A tenant (lessee, assignor) transfers rights and obligations in lease to another (assignee).
 - B. Assignor is still liable if assignee does not meet obligation (unless assignor is specifically released of liability).

Example: Tenant rents a four-bedroom house for \$600 a month on a one-year lease. Three months later he assigns the lease to another tenant (assignee) who assumes the lease and starts to make monthly payments to the lessor (original landlord). The assignee has full rights and obligations under the lease.

FIXTURES CLAUSE: Addresses whether fixtures installed by the tenant must be, could be or could not be removed after expiration of lease and which party is responsible (usually the tenant) to repair damages caused by the installation or removal of fixtures.

RIGHT OF FIRST REFUSAL: Allows an individual (usually a tenant) to match a purchase price or rent offered to landlord by a third party. If tenant agrees to match price, then the property is sold or re-rented to the tenant and not to the third party.

THE LEASE RUNS WITH THE LAND: When ownership of leased property transfers, the lease continues to be binding on the tenant as well as the new owner.

LEASING & PROPERTY MANAGEMENT

LEASE WITH OPTION TO BUY: A tenant signs a lease on property giving her the right (option) to purchase it at a certain price and terms during a set duration of time. The tenant is only obligated for the initial lease term. No further obligation exists. If the tenant decides to exercise his option, the lessor must perform.

For example: Tenant signs a one-year lease with an option clause allowing the tenant to purchase the property for \$250,000 on or before lease expiration. The tenant is obviously obligated for the one-year lease but there is no obligation to purchase the property. If the tenant decides to exercise her option, she will simply notify the landlord of her intention and the landlord is obligated to sell the property at the price and terms set in the option.

TERMINATION OF LEASE:

1. **PERFORMANCE (EXPIRATION):** Tenant meets obligation under lease.
2. **MUTUAL (BILATERAL) AGREEMENT (SURRENDER):** Tenant and landlord agree to terminate lease before expiration.
3. **EVICTION:** Legal or constructive.
4. **OPERATION OF THE LAW:** Bankruptcy, condemnation, foreclosure, tax sale, etc.
5. **DESTRUCTION** of premises.

E. ADA AND FAIR HOUSING COMPLIANCE IN PROPERTY MANAGEMENT

See “Practice of Real Estate” Section

F. SETTING RENTS AND LEASE RATES (Brokers only)

1. As a landlord or tenant – representative, a broker must have a good knowledge of market rental rates.
2. Market rents are dictated by the going rates for comparable properties.
3. A broker has a fiduciary duty towards landlord and tenant clients and is required to possess the necessary skills to research the market and determine the amount of rent that a property should be marketed at or the rent that a tenant-client should be paying.
4. For residential property, landlord and tenant rights are determined under Michigan landlord – tenant relationship act and the Michigan truth in renting act.

TRANSFER OF TITLE

Transfer of title (Salesperson 6 items/Broker 5 items)

- A. Title Insurance
 - 1. What is insured against
 - 2. Title searches, title abstracts, chain of title
 - 3. Marketable vs insurable title
 - 4. Potential title problems and resolution
 - 5. Cloud on title, suit to quiet title (BROKER ONLY)
 - B. Deeds
 - 1. Purpose of deed, when title passes
 - 2. Types of deeds and when used
 - 3. Essential elements of deeds
 - 4. Importance of recording
 - C. Escrow or closing; tax aspects of transferring title to real property
 - 1. Responsibilities of escrow agent
 - 2. Prorated items
 - 3. Closing statements/TRID disclosures
 - 4. Estimating closing costs
 - 5. Property and income taxes
 - D. Special processes
 - 1. Foreclosure
 - 2. Short sale
 - E. Warranties
 - 1. Purpose of home or construction warranty programs
 - 2. Scope of home or construction warranty programs
-

A. TITLE INSURANCE

WHAT IS INSURED AGAINST?

1. A policy that protects the insured against monetary losses that result due to a defective title, protection; may protect against:

- A. Unrecorded instruments.
- B. Forged instruments and deeds.
- C. Any information that the examining attorney might overlook.
- D. Undisclosed or missing heirs, etc.

2. Remember, title insurance policy does not insure the property. The owner needs to get a homeowners policy or other Insurance as needed.

3. The best Title Policy is one that is issued “**without standard exceptions**”.

4. TYPES OF TITLE POLICIES (BOTH the buyer and the seller must obtain title insurance)

A. OWNER'S POLICY: Usually provided and paid for by the seller (premium is paid once upon purchasing the policy at closing). The policy is issued in the amount of the purchase price and protects the purchaser and his/her heirs against losses due to title defects.

B. LENDER'S (MORTGAGEE'S) POLICY: Insures the lender's interest in the property against losses due to a defective title. Issued in the amount of the mortgage loan. Coverage is reduced

TRANSFER OF TITLE

with the decrease in mortgage balance. Provided by the borrower for the benefit of the lender (premium is paid once upon purchasing the policy at closing).

TITLE SEARCHES, TITLE ABSTRACTS, CHAIN OF TITLE

1- Title is searched by inspecting the chain of recorded instruments: including deeds, land contracts, assignments, mortgages, etc. The main purpose of the search is getting information about Ownership and Encumbrances.

2. **ENCUMBRANCES:** Liens, mortgages, taxes, leases, easements, judgments, deed restrictions, possibly encroachments, etc. attached to property that may become a burden and which may diminish its value. Encumbrances “run with the land”, i.e. unless cleared before the sale, it continues to affect the property and must be honored by the new owner.

3. **EVIDENCE OF TITLE:** Shown by collecting group of facts resulting from the recording of instruments.

A. CONSTRUCTIVE NOTICE: Public notice, results from recording an instrument.

1. An instrument does not have to be recorded to be valid.
2. A recorded instrument will have a direct effect on title search.
3. Unrecorded instruments do not give the public any notice and have no effect on subsequent owners or lenders who record their interest in good faith.
4. Instruments are recorded CHRONOLOGICALLY, i.e., in the order and date that it was received.

B. ACTUAL NOTICE: Notice given to a person when he actually sees or is notified of an instrument, he may see a person in possession, or notices an encroachment on the property.

Example: A person buying land who sees evidence of a road that passes through the land must take notice although the public record and/or surveys do not mention that road.

4. **PRIORITIES OF LIENS:** An instrument that was recorded before another has priority over the latter.

Example: Two mortgage loans are recorded at different times. The first mortgage was recorded in 2010 and the second in 2016. The mortgage that was recorded in 2010 is a first mortgage (senior mortgage lien) and the 2016 mortgage is second (junior mortgage lien). The first mortgage will have priority over the second mortgage in the event of foreclosure and will be paid first when property is sold at a foreclosure auction.

Example: A mortgage is placed on property in the year 2010 but it was not recorded. In 2016 another mortgage was placed on the same property and it was promptly recorded. The latter mortgage created a first (senior) lien because it was recorded first, i.e. before the 2010 mortgage. In the event of foreclosure, the latter mortgage will have priority over the 2010 mortgage and any proceeds resulting from a foreclosure auction will first be directed to it. The 2010 mortgage will not be paid unless there is extra money left from the foreclosure sale.

TRANSFER OF TITLE

Subordination clause: States that the rights of a mortgage holder will be secondary or subordinate to a later lien or encumbrance, giving the second encumbrance first priority.

5. CHAIN OF TITLE: The chronological succession of all recorded conveyances that lead to the present title being held. For example: from Jones to Davis to Smith to Nelson and so on

6. TITLE ABSTRACTS

1. A summary of all recorded encumbrances and conveyances affecting title. It does not guarantee title to anybody. An attorney's opinion (**CERTIFICATE OF TITLE**) is required to show that title is marketable.
2. Use has mostly ceased in the real estate market in favor of title insurance.
3. In Michigan, title is generally considered marketable if there appears to be no unresolved clouds on the title for the past **40 years** and there is no one presently in hostile possession.

CLOUD ON TITLE, SUIT TO QUIET TITLE (BROKER ONLY)

CLOUD ON THE TITLE: Defects affecting marketability of title. Normally title insurance company would attempt to clarify before agreeing to insure title.

Example: Johnson buys property from Sharon and Bill Smith. Bill Smith brings a lady to the closing who claims to be Sharon Smith and who actually presents a fake ID. Later it is discovered that the real Sharon Smith never signed the deed, creating a cloud on the title.

QUIETING TITLE SUIT: Court-ordered hearing held to determine land ownership. Action may be the result of a person's claim to establish ownership and/or remove a cloud from the title.

LIS - PENDENS: A legal document that gives notice of a lawsuit affecting property.

SELLER'S AFFIDAVIT: Seller is required by title insurance company to sign a statement at closing to state certain facts or to declare that he is not aware of any clouds on the title that were not revealed during title search.

SUBROGATION CLAUSE: A clause in the title policy that allows the insurance company who pays a claim to seek reimbursement from the party who caused the loss.

MARKETABLE TITLE: Free from any clouds or defects. Enables a purchaser to resell property without additional effort to clear title.

UNMARKETABLE TITLE: Title may have certain defects that must be cleared. A cloud on the title may be as simple as an unpaid tax bill and as serious as a deed that is missing a signature of one of the owners.

TRANSFER OF TITLE

B. DEEDS

PURPOSE OF DEED, WHEN TITLE PASSES

DEED: An instrument used to transfer title to real estate.

GRANTOR: One who transfer title to real estate, usually a seller.

GRANTEE: The person receiving title, usually a buyer.

DEED ESSENTIALS

A. NAMES AND ADDRESSES of the Grantor and the Grantee.

B. CLAUSE OF CONVEYANCE, (GRANTING CLAUSE): Deed must spell out that title is being transferred from the Grantor to the Grantee.

For example: From Davis to Nelson.

C. TO HAVE AND TO HOLD CLAUSE, (HABENDUM CLAUSE): Specifies how title is conveyed, whether a fee simple absolute, defeasible fee, or life estate.

For example: From Tom to Sharon for her natural lifetime only. Upon her death, title reverts to Tom.

D. VALUABLE CONSIDERATION: A clause acknowledging that the grantor has received consideration, there is no minimum amount of money required by law.

E. LEGAL CAPACITY: Although a grantee can be a minor, a grantor must be of legal age. Property titled to a minor can be deeded by a court-authorized legal guardian.

F. LEGAL DESCRIPTION

G. EXECUTION: Signed by the Grantor: The Grantee does not sign the deed

H. DELIVERY AND ACCEPTANCE: In order for title to pass, the deed must be voluntarily delivered by grantor, and accepted by grantee.

I. RECORDING: Although not mandatory to validate a deed, a deed should be immediately recorded at the register of deeds for public record. To record in Michigan, the following is required by the **Register of Deeds** in addition to the previous requirements:

1. Date
2. Name and address of person preparing the deed.
3. Signatures appearing on the deed must have names printed or typed underneath.

TRANSFER OF TITLE

4. Address of the Grantor and Grantee.

5. **Acknowledgment (notarizing):** Grantor signs in the presence of a Notary Public, a judge, or other official.

An acknowledgment: A declaration made in the presence of an authorized official, by someone stating that s/he is that person and is acting under no pressure and with free will.

TYPES OF DEEDS (GENERAL WARRANTY, SPECIAL WARRANTY, QUITCLAIM) AND WHEN USED

I. WARRANTY DEED

1. GENERAL (FULL) WARRANTY DEED: Contains **ALL** deed covenants, gives assurance of the quality of title and provides the most liability for title defects against the grantor.

A. COVENANT OF SEISIN: Grantor guarantees that he is "seized" or actually possesses a fee-simple or other interest and s/he has the right to convey such to Grantee.

B. COVENANT AGAINST ENCUMBRANCES: Grantor guarantees that title is free of all encumbrances except those stated in the deed or on the public record and that s/he will protect the buyer's title against any liens, debts, or other encumbrances that may arise.

C. COVENANT OF QUIET ENJOYMENT: Grantor covenants that the property is free from claims of others claiming title to it.

D. COVENANT OF WARRANTY OF TITLE (warranty forever): Grantor forever warrants title to the premises conveyed and promises to defend the Grantee's title against all claims and will compensate the Grantee with money if the title became defective.

E. COVENANT OF FURTHER ASSURANCE: If a cloud (defect) surfaces on title after conveyance, Grantor agrees that s/he will execute any instruments necessary to eliminate the problem.

2. SPECIAL WARRANTY DEED: Conveys title but covenants only against claims arising out of the Grantor's period of ownership. This deed is often used by lenders who sell foreclosed property and provide assurance against title defects for the period of time that the lender (grantor) owned the property, which may be for a short period of time.

II. QUIT CLAIM DEED: Used to relinquish or quit whatever interest the Grantor may have in the property if any at all. It does not guarantee that Grantor owns the property and gives no assurance to the quality of the title. This deed provides the least liability for title defects against the grantor, yet it places maximum liability against the grantee who is not receiving any covenants of title.

TRANSFER OF TITLE

III. JUDICIAL DEED: Ordered by court such as:

1. **Executor's Deed:** Issued with approval of Probate Court by the "Personal Representative" of the estate (executor) named by a person who died "Testate", i.e. died leaving a will.

Devise: Real Estate that is willed.

To Devise: To will property to a person or entity.

Devisor: The deceased also referred to as the "**testator**"

Devisee: The heir.

2. **Administrator's Deed:** Issued with approval of Probate Court by "Personal Representative" of the estate (administrator) who is appointed by probate court because the deceased did not leave a will, i.e. died **Intestate**.

3. **Guardian's Deed:** Issued by someone appointed to protect a minor, an insane, or an incapacitated person

4. **Trustee's Deed**

5. **Sheriff's Deed**

BILL OF SALE: Transfers title to Chattel (personal property). For example, when closing a transaction that involves appliances, a deed would not be suitable to transfer title to a stove or refrigerator. A bill of sale would be needed.

C. ESCROW OR CLOSING; TAX ASPECTS OF TRANSFERRING TITLE TO REAL PROPERTY

RESPONSIBILITIES OF ESCROW AGENT

1. Verify identity of parties.
2. Parties to sign all necessary documents.
3. Funds and documents to be distributed to the right individuals.
4. Documents are recorded at "Register of Deeds".
5. Proper IRS and state forms to be filed such as: 1099-S, L-4260, Property transfer affidavit, T-1056/2368- Affidavit of homestead exemption.

PRORATED ITEMS

1. Necessary upon sale of property.
2. Property taxes are usually paid annually and a proration is required to provide debits and credits to both Buyer and seller.
3. For income producing properties, rent received by seller in advance is prorated until end of rental period and paid to buyer at closing.

TRANSFER OF TITLE

CLOSING STATEMENTS/TRID DISCLOSURES

A. A broker must shall furnish a closing statement showing all receipts and disbursements affecting buyer and seller. This requirement **does not apply** if the closing is conducted by a **title insurance company**.

B. Broker **must supervise** all closings by being present **in person** or near a telephone or other **telecommunication** device to answer any concerns during from closing.

C. Further discussion under the **Michigan Rules and Regulations section**.

D. Also see the Integrated Disclosure Rules discussed earlier in the “Financing” section under RESPA and TILA.

ESTIMATING CLOSING COSTS

Some of the common debits and credits that are encountered at closing

Subject	Seller		Buyer	
	Debit	Credit	Debit	Credit
Purchase Price		X	X	
Buyer's Loan				X
Loan Charges/Points			X	
Seller Concessions	X			X
Title Insurance/Owner's	X			
Title Insurance /Lender's			X	
Mortgage Pay-Off	X			
Commission	X			
Delinquent Prop. Tax	X			
Transfer Tax	X			
Outstanding liens	X			
Closing fees (depends on agreement)				

TRANSFER OF TITLE

PROPERTY AND INCOME TAXES

INCOME TAX IMPLICATIONS OF HOME OWNERSHIP

- 1. CAPITAL GAINS:** Result from the sale of a capital asset such as real estate.
- 2. BASIS:** Amount of investment owner has in property including purchase price plus improvements.

Example: House purchased for \$140,000 and homeowner added a family room for \$50,000 and installed new roof for \$10,000. The new basis is \$200,000, so if house is sold for \$235,000, the capital gains will be the following:

$$\$140,000 + \$50,000 + \$10,000 = \$200,000 \text{ property adjusted basis}$$

$$\$235,000 - \$200,000 = \$35,000 \text{ capital gain}$$

3. CAPITAL GAINS ON THE SALE OF A HOME:

A. Gains on the sale of a “principal residence” are exempt (up to \$250,000 per person and \$500,000 for a married couple filing jointly)

B. To qualify as “principal residence” the taxpayer must have lived in the home for a total of 24 months out of the last 60 months that preceded the sale of the home.

- 4. INTEREST DEDUCTIONS:** The IRS allows homeowners an itemized interest deduction on interest paid to finance a principal residence as well as a second vacation home.

Example: if a person who is one that 30% tax bracket is allowed to deduct \$5000 on her income tax filing, that person will pay \$1500 less in income tax.

NOTE: Real estate taxes on a principal residence will count on an itemized tax return, but not homeowner’s insurance or condominium association fees.

INCOME TAX IMPLICATIONS FOR REAL ESTATE INVESTMENTS

- 1. INCOME TAX** is due on profits generated from investment rental operation.
- 2. CAPITAL GAIN TAXES:** Taxes due on gains recognized on the sale of a capital asset such as real estate.
- 3. TAX SHELTER—DEPRECIATION (BROKER ONLY)**

A paper loss allowed that decreases yearly profits generated from use of rental or business property.

TRANSFER OF TITLE

A. Land **is not** depreciable.

B. Improvements are depreciable over a period of time allowing for reduction in taxable income.

Example 1: Residential income property purchased for \$350,000 including land valued at \$75,000 value. \$275,000 improvement is depreciated over 27.5 years at an average of \$10,000/yr. If profit from rental operation in one year was \$14,000, then \$10,000 depreciation is deducted and taxable income is only \$4,000.

Example 2: Commercial property \$568,000 (**including** land valued at \$100,000). Based on a 39 year depreciation schedule the building depreciates $\$468,000 \div 39 = \mathbf{\$12,000}$ each year. The investor keeps the building for **10 years** claiming total depreciation of $\mathbf{\$12,000 \times 10 = \$120,000}$.

Advantages to investing in real estate

- 1- Tax shelter: Being able to defer a portion (or all) of the profits that are generated by real estate investments.
- 2- Leverage: Obtaining financing to purchase investment property.
- 3- Appreciation: Real estate values benefit from inflation as well as supply and demand.
- 4- Cash flow: Money generated from income-producing properties.

Disadvantages of real estate investments

- 1- Liquidity: Harder to convert to cash in comparison to other investments such as stocks.
- 2- Management responsibilities; those can be alleviate by hiring professional management.
- 3- Possible loss of value with bad economy.

D. SPECIAL PROCESS: Foreclosure & Short Sale – See “Financing” section

E. WARRANTIES

PURPOSE OF HOME OR CONSTRUCTION WARRANTY PROGRAMS

Home/Construction Warranty

- 1- A home warranty (for an existing home or newly built) compensates the buyer in case of defects or breakdowns occurring on property after purchase.
- 2- Protects both seller and buyer since it reduces chances of legal claims against seller and provides buyer with vehicle to recover for damages.
- 3 – Protects against anything *inside* the unit such as a bad furnace or leaky water heater.

TRANSFER OF TITLE

WARRANTY DEED
STATUTORY FORM FOR INDIVIDUALS

That

Convey and Warrant to

whose street number and post office address is

the following described premises situated in the _____ of County of

for the sum of: _____

subject to

Signed in the presence of:

Signed and Sealed:

(L.S.)

(L.S.)

COUNTY OF

ss.

(L.S.)

The foregoing instrument was acknowledged before to me this "(1) _____ day of _____, by "(2)

"(3) _____

Notary Public,

acknowledgment

Please note the following:

Drafted by:

- 1. The name of each person who signs this instrument shall be legibly printed, typewriting or stamped upon such instrument immediately beneath the signature of such person.
2. If the notarial act is performed outside the State of Michigan, the acknowledgement must show the rank or title and serial number, if any, of the person taking the acknowledgment. The official seal of the person performing the notarial act outside the State of Michigan should be affixed to the deed.

Business Address:

After recording return to:

PRACTICE OF REAL ESTATE

Practice of real estate (Salesperson 10 items/Broker 10 items)

- A. Trust/escrow accounts
 - 1. Purpose and definition of trust accounts, including monies held in trust accounts
 - 2. Responsibility for trust monies, including commingling/conversion
 - B. Federal fair housing laws and the ADA
 - 1. Protected classes
 - 2. Prohibited conduct (red-lining, blockbusting, steering)
 - 3. Americans with Disabilities (ADA) 4. Exemptions
 - C. Advertising and technology
 - 1. Advertising practices
 - a) Truth in advertising
 - b) Fair housing issues in advertising
 - 2. Use of technology
 - a) Requirements for confidential information
 - b) Do-Not-Call List
 - D. Licensee and responsibilities
 - 1. Employee
 - 2. Independent Contractor
 - 3. Due diligence for real estate transactions
 - 4. Supervisory responsibilities (BROKER ONLY)
 - a) Licensees
 - b) Unlicensed personnel
 - E. Antitrust laws
 - 1. Antitrust laws and purpose
 - 2. Antitrust violations in real estate
-

A. TRUST/ESCROW ACCOUNTS

PURPOSE AND DEFINITION OF TRUST ACCOUNTS, INCLUDING MONIES HELD IN TRUST ACCOUNTS

RESPONSIBILITY FOR EARNEST MONEY AND OTHER TRUST MONIES, INCLUDING COMMINGLING/CONVERSION

BOTH OF THE ABOVE ARE **DISCUSSED** UNDER TRUST ACCOUNT
REQUIREMENTS TO FOLLOW UNDER **MICHIGAN RULES** AND REGULATIONS

PRACTICE OF REAL ESTATE

B. FEDERAL FAIR HOUSING LAWS

PROTECTED CLASSES

1. CIVIL RIGHTS ACT OF 1866: Prohibits discrimination because of race, without exceptions.

2. CIVIL RIGHTS ACT OF 1968: Also known as the **Fair Housing Act. Title VIII** of the act prohibits discrimination in the **sale, rental and financing of dwellings based on race, color, religion, or national origin**. Amended in 1988 to add disability and familial status.

3. THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974: Prohibits discrimination based on sex, and requires the use of an equal housing opportunity poster. (Equal housing symbol to be used in certain advertisements). This poster contains a statement that indicates broker displaying symbol supports fair housing and affirmative marketing and advertising programs.

4. THE MICHIGAN PERSONS WITH DISABILITIES CIVIL RIGHTS ACT: Approved by the Governor on July 28, 1976--Defines the civil rights of individuals who have a disability to prohibit discriminatory practices, policies, and customs in the exercise of those rights and to provide for the promulgation of rules.

5. THE MICHIGAN CIVIL RIGHTS ACT "ELLIOT LARSON": Approved by the Governor on January 13, 1977--Prohibits against discrimination because of age and marital status and, with regards to employment, height and weight.

6. FAIR HOUSING AMENDMENT ACT OF 1988: Prohibits discrimination because of disability (mental or physical) and familial status (families with children).

A protected disabled individual may suffer from a determinable **physical or mental condition**, which limits one or more of that individual's major life functions, but is unrelated to his/her ability to acquire, rent or maintain property, **includes individuals receiving treatment to recover from drug or alcohol addiction**. Such condition may result from one or more of the following:

- a. disease, including Alcoholism, AIDS or a drug addiction
- b. injury
- c. congenital condition at birth
- d. functional disorder

Also protected are persons associated with the disabled buyer or renter AND persons residing in, or intending to reside in, a dwelling after it is sold, rented, or made available.

PRACTICE OF REAL ESTATE

For example, a landlord or a condominium association may have a policy against allowing pets to occupy an apartment unit or a condominium but the landlord or association must accommodate a disabled individual who has a service animal and may not even charge an additional deposit for the animal.

A landlord may not allow a tenant who may be a social drinker or a recreational drug user but must accommodate an individual who is in the process of recovering from alcoholism or drug addiction.

Service animals: According to the Fair Housing Act- Section I: Reasonable Accommodations for Assistance Animals under the FHA Act and Section 504, an assistance animal is not a pet. It is an animal that works, provides assistance, or performs tasks for the benefit of a person with a disability, or provides emotional support that alleviates one or more identified symptoms or effects of a person's disability.

Americans With Disabilities Act (ADA): Prohibits discrimination based on disability.

- 1- Applies to businesses that serve the public or have 15 or more employees.
- 2- Title III of the ADA requires that businesses provide accommodations to persons with disabilities and access that is equal or similar to that available to the general public.
- 3- Requires that businesses become accessible to disabled customers. Accessibility requirements include:
 - a- removal of architectural barriers
 - b- parking
 - c- entrance doors
 - d- security gates
 - e- maneuvering space
 - f- service counters
 - g- fixed seating and tables

Discrimination, under the Fair Housing Act **includes the following**: A person shall not:

A. Deny any individual the full and equal enjoyment of goods, service, facilities, privileges, and accommodations of a public place, because of a disability.

B. Print, circulate, post, mail, or cause to publish or advertise indicating that full use and enjoyment of a public place will be refused or denied for a person with a disability.

C. REFUSE TO PERMIT, at the expense of the disabled, reasonable modifications of existing premises occupied or to be occupied by the disabled if such modifications may be necessary to afford the disabled the full enjoyment of the premises.

PRACTICE OF REAL ESTATE

Example: A tenant asks permission to install a ramp on the house that he is renting and offers to pay for it. The ramp is need because of the tenant's disability. Management may not refuse the request but can request that the tenant does the work according to code and would be responsible to fix any damages.

D. MULTI-FAMILY DWELLINGS: All 4-or-more unit apartment complexes placed in service after March 13, 1991 must be accessible to disabled individuals if the apartment unit is a ground floor unit or is served with an elevator.

COVERED TRANSACTIONS

Listing, selling, leasing, appraising, negotiating a sale, and any other related real estate services.

TYPES OF VIOLATIONS AND ENFORCEMENT

1. ADVERTISING: To make or cause to be made, printed, or published, any notice, statement or advertisement, with respect to the sale or rental of a dwelling that indicates a preference, limitation or discrimination.

Example: Agent advertises: This cozy 2 bedroom condo is an empty nester's dream come true.

Obviously the agent appears to be in favor of people who have no children.

2. PREVENTING THE INSPECTION of property, available for sale or lease.

3. BLOCKBUSTING: Also known as **PANIC PEDDLING**. To profit from inducing any person to sell or rent dwellings by representing entry of certain groups of people of a particular race, color, etc.

Example: Agent tells homeowners in the neighborhood that a new group home has been placed in their neighborhood and they should consider selling their properties as soon as possible before they lose value. The fact is that even though group homes may house mentally disabled individuals or individuals who are in the process of recovering from a drug addiction; those individuals are well supervised and not considered dangerous. The agent probably knows that fact but is making the statement to scare people into selling as soon as possible and hopefully pick up some listings.

U.S. Department of Housing and Urban Development



**We do Business in Accordance With the
Federal Fair Housing Law
(The Fair Housing Amendments Act of 1988)**

**IT IS ILLEGAL TO DISCRIMINATE AGAINST ANY PERSON BECAUSE OF
RACE, COLOR, RELIGION, SEX, HANDICAP, FAMILIAL STATUS, OR
NATIONAL ORIGIN**

- In the sale or rental of housing or residential lots
- In advertising the sale or rental of housing
- In the financing of housing
- In the provision of real estate brokerage services
- In the appraisal of housing

Blockbusting is also illegal

**Anyone who feels he or she has been discriminated against may file a complaint of housing discrimination:
1-800-424-8590 (toll free)
1-800-424-8529 (TDD)**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ASSISTANT SECRETARY FOR FAIR HOUSING AND EQUAL OPPORTUNITY
Washington, D.C. 20410**

HUD

PRACTICE OF REAL ESTATE

4. DISCRIMINATION BY FINANCIAL INSTITUTIONS: In loaning money or in giving favorable terms and interest rates.

REDLINING: A lender refuses loans on property located in certain sections of the city altogether regardless of qualifications of property or applicant.

5. REFUSING TO BROKER OR APPRAISE real estate, because of race, color, etc.

6. ACCEPTING A LISTING by a licensee, knowing that discrimination might exist against a certain group of people by the seller.

Example: Seller tells the agent to screen potential buyers before they view his property and to make sure that they are not of a certain race, religion, nationality, etc. The agent has a duty to refuse the listing. And in the event that the agent takes a listing in good faith but later discovers the seller's intentions, the agent has a duty to cancel the listing.

7. STEERING: Directing minority persons into or away from neighborhoods because of their minority status.

Example: The agent shows a minority buyer homes only in predominately minority neighborhoods. This is unethical due to its discriminatory practices.

8. RETALIATION ACTS of a respondent against a complainant or against a member of the Civil Rights Commission performing his/her duty or against any other person involved in the investigation as a witness or as a third party.

REMEDIES UNDER FEDERAL LAW:

1. A person can file a complaint alleging that an act of discrimination has occurred against him/her with the Secretary of the **Department of Housing and Urban Development (HUD)** and within (1) one year from the date of the occurrence of such an alleged violation.

Certain cases may be assigned to the **Department of Justice (DOJ)** for investigation and possible legal action.

A person may also file a **civil lawsuit** in federal court.

2. HUD may also file a complaint on its own initiative and without a complaint from the public.

3. An attempt is made to negotiate a conciliation agreement with the violators and HUD may seek temporary or permanent injunctions. HUD can issue a "charge" against the alleged violator.

PRACTICE OF REAL ESTATE

4. Penalties

A. Administrative: The ALJ may assess a civil penalty against any respondent for each separate and distinct discriminatory housing practice.

B. A judge in a Federal District Court may award all relief ordinarily available as well as penalties.

REMEDIES UNDER STATE LAW:

Individuals who feel they have been discriminated against can file complaints with:

1. Michigan Civil Rights Commission within 6 months
2. Filing private civil law suit, in Circuit Court

EXEMPTIONS

EXEMPTIONS UNDER FEDERAL LAW:

Exemptions are allowed if they are not based on racial discrimination, illegal advertising and/or if an agent is involved

1. Rooms or units in dwellings to be occupied by not more than four families, if the owner lives in one unit.
2. Religious organizations operating dwellings for other than commercial reasons. Membership in such religion must not be restricted against color, sex, race, or national origin.
3. Private club operating dwellings not for commercial purposes, i.e., non-profit organization
4. For senior citizens housing, discrimination is allowed under the following circumstances:
 - A. Against persons who are not 55 years old or older, if 80 percent of the units or more are occupied by at least one person who is 55 or older.
 - B. Against persons who are not at least 62 years of age or older, if the housing complex is occupied solely by persons who are 62 years old or older.

PRACTICE OF REAL ESTATE

C. ADVERTISING AND TECHNOLOGY

TECHNOLOGY ISSUES IN ADVERTISING TRUTH IN ADVERTISING

- 1- Follow state rules (discussed later) with regards to advertising by broker and salesperson.
- 2- Website must also have the name of Broker and telephone number or street address.
- 3- Avoid misleading “framing” which misleads consumer as to the identity of listing broker.
- 4- Always update website and remove sold listings.
- 5- **Confidential information** gathered from clients and customers must **remain confidential** even if the business relationship with licensee no longer exists.
- 6- **Do Not Call List** - Federal telemarketing rules

Before making unsolicited telephone calls, licensee must make sure of the following:

- a. The telephone number being called is not placed on the national “do not call registry”.
- b. Licensee must not deliberately block their caller ID.
- c. Licensee must not use pre-recorded messages.
- d. When asked not to call again, licensee must place the recipient’s number on a “no call” list and not attempt to bother this individual again.
- e. The Established Business Relationship Exemption- To qualify for the “established business relationship” exception, the call must be made
 - (1) within **18 months** after the recipient’s last purchase, delivery or payment, or
 - (2) within **3 months** after the recipient makes an inquiry of, or submits an application to, the caller.

REAL ESTATE CALCULATIONS

Real estate calculations (Salesperson 5 items/Broker 7 items)

- A. Basic math concepts
 - 1. Loan-to-value ratios
 - 2. Discount points
 - 3. Equity
 - 4. Down payment/amount to be financed
 - B. Calculations for transactions
 - 1. Property tax calculations
 - 2. Prorations
 - 3. Commission and commission splits
 - 4. Seller's proceeds of sale
 - 5. Buyer funds needed at closing
 - 6. Transfer fee/conveyance tax/revenue stamps
 - 7. PITI (Principal, Interest, Taxes and Insurance) payments
 - C. Calculations for valuation, rate of return (BROKER ONLY)
 - 1. Net operating income
 - 2. Depreciation
 - 3. Capitalization rate
 - 4. Gross Rent and gross income multipliers
-

- A. Basic math concepts
 - 1. Loan-to-value ratios *
 - 2. Discount points *
 - 3. Equity *
 - 4. Down payment/amount to be financed *
- B. Calculations for transactions
 - 1. Property tax calculations**
 - 2. Prorations
 - 3. Commission and commission splits *
 - 4. Seller's proceeds of sale *
 - 5. Buyer funds needed at closing *
 - 6. Transfer fee/conveyance tax/revenue stamps
 - 7. PITI (Principal, Interest, Taxes and Insurance) payments*

* see "financing" section

** see "land use controls and regulations" section

REAL ESTATE CALCULATIONS

CALCULATIONS FOR TRANSACTIONS, INCLUDING MORTGAGE CALCULATIONS

Example: Calculate the monthly payment on an \$80,000 loan at 6.5% rate, 20 year amortization

Based on the Table, the factor for 20 years is 7.46

$\$80,000 \div 1000 = 80$, $80 \times 7.46 = \$596.80$

To Find Monthly Mortgage Payment + Principal and Interest, memorize this formula:

AMORTIZATION TABLE

RATE%	15yrs	20yrs	25yrs	30yrs
6.50	\$8.72	\$7.46	\$6.76	\$6.33
6.75	8.85	7.61	6.91	6.49
7.00	8.99	7.76	7.07	6.66
7.25	9.13	7.91	7.23	6.83
7.50	9.28	8.06	7.39	7.00
7.75	9.42	8.21	7.56	7.17
8.00	9.56	8.37	7.72	7.34
8.25	9.71	8.53	7.89	7.52
8.50	9.85	8.68	8.06	7.69
8.75	10.00	8.84	8.23	7.87
9.00	10.15	9.00	8.40	8.05
9.25	10.30	9.16	8.57	8.23
9.50	10.45	9.33	8.74	8.41
9.75	10.60	9.49	8.92	8.60
10.00	10.75	9.66	9.09	8.78
10.25	10.90	9.82	9.27	8.97
10.50	11.06	9.99	9.45	9.15
10.75	11.21	10.16	9.63	9.34
11.00	11.37	10.33	9.81	9.53

To determine monthly payment, remove last 3 zeroes from loan amount and multiply by Rate/yr factor.

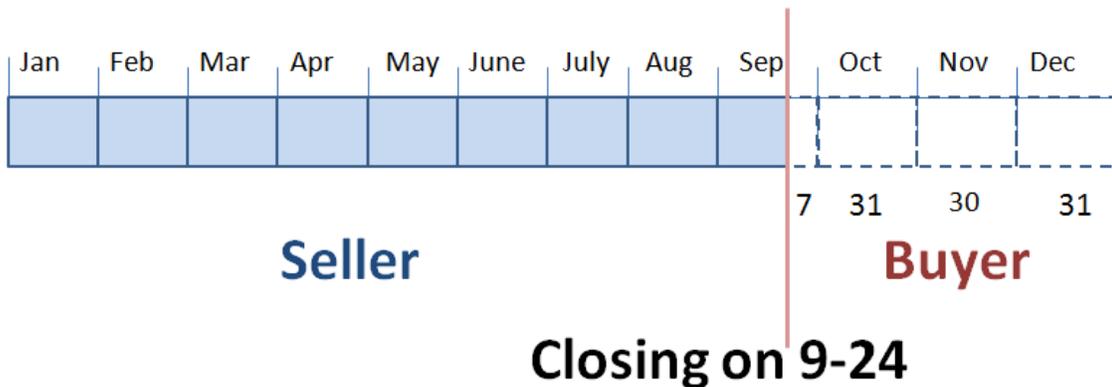
REAL ESTATE CALCULATIONS

PRORATIONS OF PROPERTY TAXES

Example: Tax paid in advance in the amount of \$1,800/yr. for a calendar year. What proration is necessary at closing using the exact days (actual days) method?

Property Tax Paid in Advance \$1,800/yr

Assume **365 days in a year**, and **buyer** pays for **closing date**. **Property Tax is $1,800 \div 365 = \$4.93/\text{day}$**



99 Days X \$4.93/day = \$488 Debit Buyer and Credit Seller

REAL ESTATE CALCULATIONS

Example: Tax paid in arrears in the amount of \$1,800/yr. for a calendar year. What proration is necessary at closing?

Property Tax Paid in Arrears \$1,800/yr

Assume **365 days in a year**, and **buyer** pays for **closing date**. **Property Tax is $1,800 \div 365 = \$4.93/\text{day}$**



266 Days X \$4.93/day = \$1,312 Debit Seller and Credit Buyer

KEEP IN MIND:

If property tax is paid **IN ADVANCE** = Credit Seller/Debit Buyer

If property tax is paid **IN ARREARS** = Credit Buyer/Debit Seller

REAL ESTATE CALCULATIONS

TRANSFER TAX

1. REVENUE STAMPS:

- A. Paid by the seller to the county when deed is recorded.
- B. Amount 55 cents per \$500.00 of price or fraction thereof.
- C. No fees required for transfers under \$100.00, or if no money is exchanged such as between relatives.

Example: How much revenue stamps due to record deed with price of \$47,200.00?

Answer: \$47,200.00 is rounded to \$47,500.00

$$47,500 \div 500 = 95 \times 0.55 = \$52.25$$

2. STATE TAX:

- A. Paid by seller to the State upon deed recording.
- B. Amount \$3.75 per \$500 of price or fraction thereof.
- C. No fees required for transfers under \$100.00, or if no money is exchanged such as between relatives.

Example: How much State tax due to record deed with price tag of \$47,200?

Answer: \$47,200.00 is rounded to \$47,500.00

$$47,500 \div 500 = 95 \times \$3.75 = \$356.25$$

$$\text{Total transfer tax due is } \$52.25 + \$356.25 = \$408.50$$

Note: you can add $\$3.75 + \$0.55 = \underline{\$4.30 \text{ per } \$500}$ or \$8.60 per \$1,000

Remember This Formula:

$$(\text{Selling Price} \div 500) \times \$4.30 = \text{Total Transfer Tax}$$

MICHIGAN STATE LAWS AND RULES

MICHIGAN STATE LAWS AND RULES

[NOTE: On examination questions dealing with Michigan Laws and Rules, "Department" refers to the Department of Licensing and Regulatory Affairs; "Board" refers to the Board of Real Estate Brokers and Salespersons]

Duties and Powers of the Department and the State Board of Real Estate (Salesperson-3 Items, Broker-3 Items)

General powers
Investigations, conferences, hearings, and exemptions
Penalties

GENERAL POWERS

THE DEPARTMENT OF LICENSING & REGULATORY AFFAIRS

1. The Department is headed by the Director. The Director is appointed by the Governor.
2. Only the Department can issue or renew a license.
3. The purpose of regulation is **Consumer Protection**.
4. Real estate licensees are regulated under the **Michigan Occupational Code**.

THE REAL ESTATE BOARD

1. Consists of nine (9) members appointed by the Governor to serve for four (4) years for not more than two (2) consecutive terms.
2. Six (6) of the members have a Real Estate license and three (3) represent the public. Major duties include:
 - A. The interpretation of licensing requirements.
 - B. Aiding the Department in **investigations** against licensees and **assessing penalties**.
 - C. **Recommending** to the Department to **issue or renew a license** to a person who has met the requirements. A person who is declined by the Department may still petition the Board to receive license.
 - D. **Recommending approval** for educational courses and joining the Department in approving the form and contents of the **licensing examination**.

MICHIGAN STATE LAWS AND RULES

E. May promulgate rules setting and adjusting the minimal standards of practice.

INVESTIGATIONS, CONFERENCES, HEARINGS, AND EXEMPTIONS

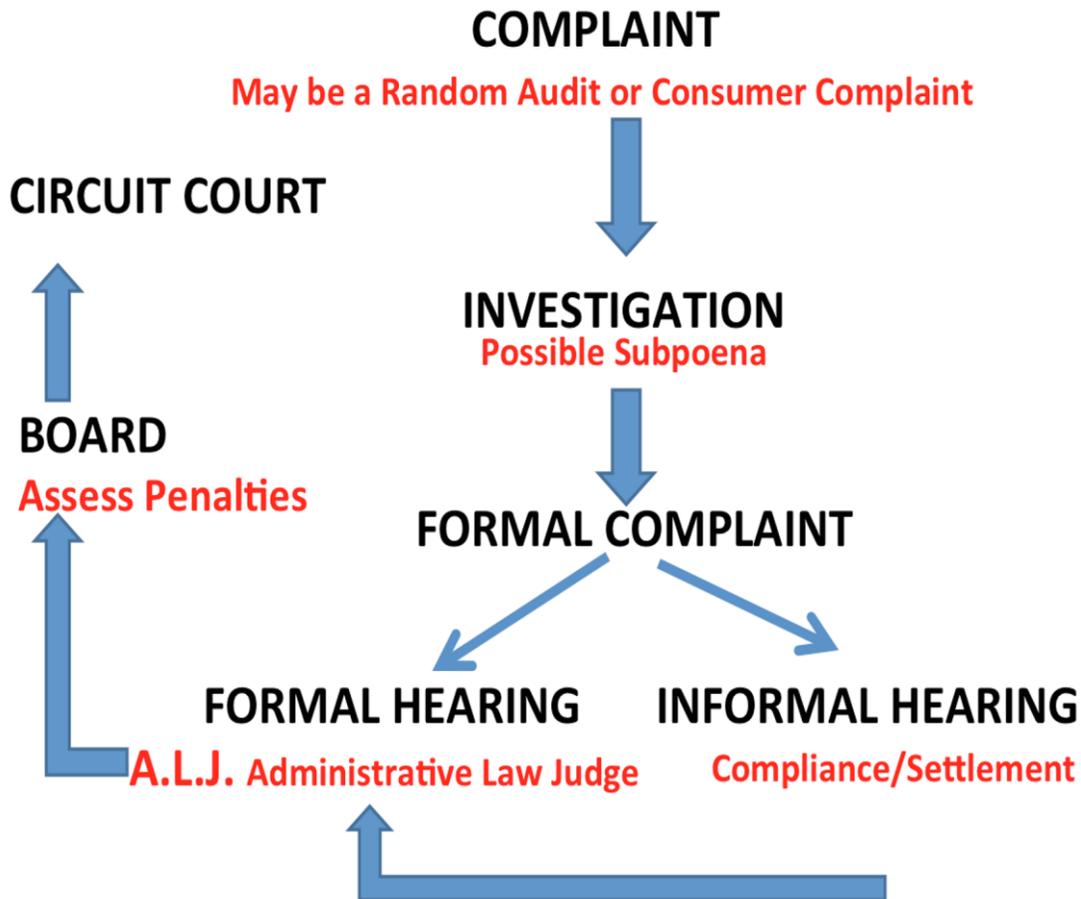
1. Complaints are filed with the Department. The Department may also start an investigation at its own motion at random. A complaint must be filed **within 18 months** after 1 of the following dates, whichever occurs later:
 - (a) The date of the alleged violation.
 - (b) If the alleged violation occurs in connection with a real estate transaction, the date the transaction is completed.
 2. The Department, upon receiving a complaint alleging rule violation shall immediately begin its investigation.
 3. Notice is mailed to the licensee at his/her last known address of record.
 4. In investigating a complaint, the Department may petition the **Department of attorney general to issue a SUBPOENA (court order)** ordering a person to appear for an investigation or ordering a person or company to produce records related to the investigation.
 5. The "Investigative Unit" of the Department shall conduct the investigation. If no violation appear to have taken place, the complaint shall be considered UNFOUNDED and notice is forwarded to the complainant and the respondent.
 6. If the investigation results in evidence of violation, the department shall prepare a **FORMAL COMPLAINT** to be served on the respondent. The Department may also issue one or more of the following orders even before a **FORMAL HEARING** is held especially if the investigation reveals a possible "imminent threat" to the public.
 - A. An order summarily suspending the license.
 - B. An order to cease and desist from a violation.
- NOTE: License revocation will not be ordered unless a **FORMAL HEARING** is held.
7. The complainant and the respondent shall be served a notice of an opportunity to resolve the problem at an **INFORMAL HEARING**. A member of the Board may attend the informal hearing.
 8. The informal hearing may result in a settlement that may include license revocation, suspension, limitation, probation, restitution, censure, or any other penalty.
 9. If the informal hearing does not result in a settlement, a formal hearing shall be scheduled.

MICHIGAN STATE LAWS AND RULES

10. The formal hearing shall be heard by an “Administrative Law Judge” (ALJ), and the conclusion of the hearing shall be submitted to the Director.

11. If formal hearing results in evidence of violation, The ALJ may recommend penalties, however the final determination is left to the Board members who may either accept the Judge’s recommendation or assess different penalties within sixty (60) days. If the Board did not make a determination within 60 days, the Director may do so.

12. A respondent may appeal the Department decision to Circuit Court.



MICHIGAN STATE LAWS AND RULES

VIOLATIONS/PENALTIES

I. VIOLATIONS:

A licensee is subject to disciplinary action if s/he commits one or more of the following acts:

1. Acting for more than one party in a transaction (dual agency) without the knowledge and written consent of the parties **except** in the practice of property management.
2. Representing or attempting to represent a real estate brokers other than the employer, without the expressed knowledge and consent of the employer.
3. Failure to account for money coming into the licensee's possession, which belongs to others.
4. Changing the business location (by the broker) without notifying the Department.
5. A real estate broker, failing to return a salesperson's license within five (5) days, when notified that the salesperson has changed employment, and is being transferred to a different broker's office.
6. Paying a commission to a person who is not licensed.

However, a licensed real estate broker may pay a commission to a licensed real estate broker in another state if the non-resident real estate broker does not conduct business in this state.

7. Failing to deposit in non-interest bearing demand account (known as the Trust or Escrow account) money belonging to others coming into the hands of the licensee in compliance with the following:

- A. A real estate salesperson shall, upon receipt, pay over to the employing broker any money that s/he receives regarding a transaction that the salesperson is involved in on behalf of his/her employing broker.
- B. Money deposited in the broker's trust account must remain and be accounted for at the consummation or termination of the transaction. No one may use this money until that time. If so, it may be **an illegal conversion of funds**.
- C. A real estate broker shall deposit funds into the trust account within (2) banking days after the signing of a purchase agreement by all parties.
- D. A broker shall keep accurate records of all funds deposited in the trust account as well as funds paid out of the account. Records must be maintained for at least 3 years.

MICHIGAN STATE LAWS AND RULES

Commingling Funds: The act of placing money received from buyers to purchase real estate with the broker's personal money, or vice versa.

8. Failing to provide a written agency disclosure to prospective buyers, sellers, landlords and tenants of residential property 1 to 4 family dwellings or building sites used for the same purpose, including condominiums.
9. Commits an act of gross negligence.
10. Fails to comply with a subpoena issued under this act.

II. PENALTIES:

A person who commits a violation may be assessed one or more of the following penalties:

1. Placement of one or more of the following limitations:
 - A. A requirement that a financial statement certified by a certified public accountant (CPA) must be filed with the department at regular intervals
 - B. A requirement, which reasonably assures that a licensee, is competent to perform an occupation for example: An agent may have to attend additional educational courses.
 - C. A requirement that all contracts related to the licensee's business must be reviewed by an attorney.
 - D. A requirement that a licensee have on file with the Department a bond not to exceed \$5,000.00 for a period of five years.
 - E. Certain activities may be restricted.
 - F. A time limit may be imposed
 - G. Activity of agent may be confined to a certain geographic location for a set time.
2. Suspension of a license - Example: The department may suspend you immediately, without investigation, if you're an imminent threat to the public.
3. Denial of a license.
4. Revocation of a license
5. A civil fine, to be paid to the Department, not to exceed \$10,000.00. The license may be suspended until the fine is paid.
6. Censure – an expression of disapproval

MICHIGAN STATE LAWS AND RULES

7. Probation. Licensee is put under evaluation for a period of time, so that the Board may determine if the licensee is capable of practicing a certain occupation with competence.

8. A requirement that restitution be made.

9. The following penalties apply to persons who do not have a license but practice a regulated occupation:

A. The first time a person or entity engages, or attempts to engage, in an occupation that is regulated under this article without being licensed, shall be found guilty of a misdemeanor which could result in a fine of not more than \$500.00 or incarceration of ninety (90) days, or both.

B. A second violation is also a misdemeanor and the penalty is up to \$1,000.00, or incarceration of not more than one (1) year, or both.

Licensing Requirements (Salesperson-5 Items, Broker-4Items)

Activities requiring a license and exemptions
Types of licenses
Eligibility for licensing
License renewal, including continuing education
Transfer or change in license

ACTIVITIES REQUIRING A LICENSE AND EXEMPTIONS

I.ACTIVITY REQUIRING LICENSING: A person who engages in one or more of the following activities regarding real estate or business opportunity for another, with intent to collect a fee, compensation, or valuable consideration must be a Real Estate licensee.

-  Sells or offers to sell.
-  Buys or offers to buy.
-  Lists, offers or attempts to list.
-  Negotiates for the purchase, sale, exchange, or mortgage.
-  Negotiates for the construction of a building, on real estate.
-  **Property management:** Leases, offers to lease, rents, or offers to rent, real estate for improvement on the real estate.
-  A broker or associate broker who conducts a market analysis (not an appraisal), which does not involve a federally related transaction if the market analysis is put in writing and is for the sole purpose of

MICHIGAN STATE LAWS AND RULES LICENSING REQUIREMENTS

establishing a listing or a leasing price and a disclaimer states in boldface print:

THIS IS A MARKET ANALYSIS, NOT AN APPRAISAL AND WAS PREPARED BY A LICENSED REAL ESTATE BROKER OR ASSOCIATE BROKER, NOT A LICENSED APPRAISER.

II. NON-LICENSED PERSON ENGAGED IN THE SALE OF OWNED REAL ESTATE: A person or entity is considered to be in the practice of real estate as a principal vocation if s/he:

- A. Enters into more than five real estate sales in a twelve-month period.
- B. Dedicates more than half of his/her working time to the sale of real estate, or more than fifteen hours a week, whichever is less, during any consecutive six month period.
- C. Holds himself / herself out to the public as being principally engaged in the real estate business.

III. EXEMPTIONS: The following parties, associations, corporations and/or partnerships may be engaged in the sale of real estate for a fee, without a license.

- 1. **A LICENSED BUILDER** who builds and sells new single family homes, two units, three units, or four unit family dwellings.
- 2. **AN ATTORNEY AT LAW**, acting as an attorney at law.
- 3. **ATTORNEY IN FACT** acting under power of attorney.
- 4. **A RECEIVER, OR TRUSTEE** in bankruptcy, **AN ADMINISTRATOR, EXECUTOR**, or other person selling **UNDER AN ORDER FROM COURT**.
- 5. **A TRUSTEE** selling under a deed of trust.
- 6. **A TENANT** receiving up to one half month's rent from the owner or from the agent of the owner, for referring another prospective tenant in the same building.
- 7. A person who is **REGULATED UNDER THE MORTGAGE BROKERS AND SERVICERS LICENSING ACT** (See 7D16), if s/he does not perform an activity that requires a real estate license.
- 8. A licensed real estate broker may pay a commission (**referral fee**) to a real estate broker that is **licensed by another state** if the nonresident real estate broker does not conduct in this state a negotiation for which a commission is paid.

MICHIGAN STATE LAWS AND RULES LICENSING REQUIREMENTS

TYPES OF LICENSES

1. REAL ESTATE BROKER
2. REAL ESTATE ASSOCIATE BROKER
3. REAL ESTATE SALESPERON

ELIGIBILITY FOR LICENSING

I. REAL ESTATE BROKER

1. Must pass the licensing examination.
2. Before receiving a real estate Broker's license, an applicant shall have completed ninety (90) classroom hours in real estate fundamentals, approved by the Department, of which not less than nine (9) hours shall be instruction on civil rights and equal opportunity in housing.
3. Person must have been engaged in the real estate business for not less than three (3) years.
4. A broker's license will not be issued to a person who has been convicted of **embezzlement of funds**

II. REAL ESTATE ASSOCIATE BROKER

An individual who has met the broker's license requirement, but is employed by a real estate broker under an associate broker's license.

III. REAL ESTATE SALESPERSON

An individual employed by a broker who may perform Real Estate transactions. Must meet the following requirements:

1. Attend a 40-hour pre-licensing course.
2. Pass the licensing examination.

A NON - LIVING ENTITY AS A BROKER

1. A broker's license may be granted to an entity such as a Corporation, Limited Liability Company (LLC), Partnership, Association, Joint Venture, or Trust.
2. Each officer or member of the entity designated by the real estate broker as active shall apply for and obtain an associate real estate broker's license. This individual is known as the **PRINCIPAL ASSOCIATE BROKER**. An associate broker who is not an officer or member of an entity is a **NON-PRINCIPAL**

MICHIGAN STATE LAWS AND RULES LICENSING REQUIREMENTS

ASSOCIATE BROKER.

3. If the real estate broker's license of an entity is revoked, suspended, or the broker dies, that results in suspending the license of any associate brokers and salespersons connected with the broker.
4. A broker's license, issued to a non-living entity, or an individual or a principal associate broker is not transferable, however a non-principal associate broker's license is transferable.
5. An associate real estate broker shall not be licensed under more than 1 individual entity holding a real estate broker's license unless the associate real estate broker is an active member or active officer of the entity.

LICENSE ISSUANCE AND CONTENTS

1. Issued after paying the proper fee and shows such information as licensee's name, address, permanent I.D. number, and expiration date, the name of the employing broker and the salesperson's name.
2. A broker shall retain custody of the licenses of all the licensees that are associated with the real estate company.

POCKET CARDS

1. Shall certify that the person whose name appears on the card is a real estate licensee and is doing business in that capacity.
2. A real estate licensee shall carry the pocket card while doing business.

NON - RESIDENT LICENSE

1. A nonresident of this state may become a real estate broker or a real estate salesperson by conforming to the requirements of the law, including experience, education and test requirement.
2. A nonresident applicant shall file **an irrevocable consent** that an action may be commenced against the applicant in the proper court of a county of this state in which a cause of action may arise in which the plaintiff may reside, by the service of process or pleading authorized by the laws of this state on the department, the consent stipulating and agreeing that **service of process** or pleadings on the department shall be taken and held in court to be as valid and binding as if due service had been made upon the applicant in this state.
3. No reciprocal licensing agreements with other states
4. Nonresident broker must have an actual physical location and must maintain a trust account in this state for any deposits received on transactions conducted within the state.

MICHIGAN STATE LAWS AND RULES LICENSING REQUIREMENTS

LICENSE RENEWAL, INCLUDING CONTINUING EDUCATION

1. All licenses are based on a 3 year renewal period and must be renewed before the end of that period. All licenses expire on **October 31st, 2021**, and at the end of a 3 year renewal cycle thereafter. (i.e. 2021, 2024, etc.). A broker, associate broker or salesperson must attend **six hours (6)** of continuing education approved by the Department each year.
2. A license or registration **shall lapse** on the day after the expiration date.
3. **“Relicensure”** means the granting of a license to a person whose license has **lapsed** for failure to renew the license within 60 days after the expiration date.
4. A person **who fails to renew** a license or registration on or before the expiration date shall be permitted to renew the license or registration by payment of the required license or registration fee and a late renewal **fee within 60 days** after the expiration date.
5. The department may relicense without examination a licensee whose license has lapsed for **less than 3 years** if the licensee shows proof of completion of not less **than 6 clock hours of continuing education for each year** the license was lapsed.
6. The department may **relicense a broker** whose license has lapsed **for 3 or more** continuous years if the licensee provides proof of the successful **completion of 1** of the following:
 - (a) Six clock hours of continuing education for each of the years the license was lapsed.
 - (b) Ninety clock hours of broker pre-licensure instruction.
 - (c) Passing the broker licensing examination.
7. **A salesperson** whose license has **been lapsed for 3 or more** continuous years may be relicensed if the licensee provides proof of the successful **completion of 1** of the following:
 - (a) Six clock hours of continuing education for each of the years the license was lapsed.
 - (b) Forty clock hours of salesperson pre-licensure instruction.
 - (c) Passing the salesperson licensing examination.

TRANSFER OR CHANGE IN LICENSE

1. A salesperson or non-principal associate broker may terminate employment by giving a written or oral notice to the employing broker.
2. The employing broker shall forward the salesperson's license to the Department within five (5) DAYS of such notice by certified mail.
3. Another license may not be issued to a salesperson unless the pocket card is returned to the Department or has been successfully accounted for. A salesperson may successfully account for his pocket card, by **getting the dated signature of the**

MICHIGAN STATE LAWS AND RULES LICENSING REQUIREMENTS

new broker or associate broker on the back of the pocket card as well as the license number.

4. When a **TRANSFER APPLICATION** accompanied by the proper fee is filed with the Department stating that the licensee had complied with the pocket card requirements, the Department shall consider the signed pocket card as evidence of licensing for **FORTY FIVE (45) DAYS** from the date endorsed on the back of the card.

Statutory Requirements Governing the Activities of Licenses (Salesperson-10 Items, Broker-15 Items)

- Advertising
- Commissions and Specific Services for Which Fees may be charged
- Disclosure/conflict of interest
- Handling of contracts, documents, listing and recommendations
- Handling of monies and trust accounts
- Place of business/branch office requirements (Broker Only)
- Record keeping
- Inducements
- Alternative Dispute Resolution vs. Arbitration (Broker only)
- No disclosure duty attaches to stigmatized property
- Closing responsibilities

ADVERTISING

1. A licensee may not advertise in any manner to misrepresent material facts.
2. A salesperson shall only advertise under the supervision of the employing broker and in the name of the broker. Any advertising displayed or published on or after January 1, 2018, that includes the name of an associate broker, a salesperson, or a cooperating group of associate brokers or salespersons employed by the same real estate broker, shall include all of the following:
 - (a) The **telephone number or street address** of the employing broker.
 - (b) The business name of the employing broker, in **equal or greater type size** than the name of the associate broker, salesperson, or cooperating group.
3. A Broker may not advertise to buy, sell, rent, lease, exchange, or mortgage real property, or business opportunity unless s/he gives the public the **definite impression that the advertiser is a broker** and not a private party.
4. Advertising the licensed name must be accompanied with a **telephone number or street address**.
5. A broker must not advertise using a different name other than the name the broker is licensed under.
6. A salesperson may not advertise to buy or sell property under his own name as a private party unless it is his own residence.
7. A salesperson may not advertise to lease or rent property as a private individual unless s/he is the owner of property.

**MICHIGAN STATE LAWS AND RULES
STATUTORY REQUIREMENTS GOVERNING ACTIVITIES**

DISCLOSURE/CONFLICT OF INTEREST

- 1. SALE OF PROPERTY OWNED BY SALESPERSON (OTHER THAN PRINCIPAL RESIDENCE):** Shall be deemed to be done as a principal vocation of the salesperson and the sale shall be done through a licensed broker.
- 2. SALE OF PROPERTY OWNED OR UNDER OPTION BY BROKER:** Subject to the act and these rules.
- 3. SELLING PROPERTY OWNED BY LICENSEE:** This fact must be **revealed to the purchaser in writing** before an offer to purchase is signed. Disclosure required whether licensee is acting under personal name, with other partners, or as an entity.

**TRANSACTIONS, A LICENSEE CAN
PERFORM AS A PRIVATE PARTY**

BROKER	SALESPERSON
NOTHING	SALE OF PRINCIPAL RESIDENCE
	MANAGING OWNED PROPERTY

**MICHIGAN STATE LAWS AND RULES
STATUTORY REQUIREMENTS GOVERNING ACTIVITIES**

4. LICENSEE ACQUIRING INTEREST, COMMISSION:

- A. A licensee involved in the purchase of real estate or business opportunity shall make his/her position known to the owner (**in writing**) before the purchase agreement is completely signed by all parties. Disclosure required whether licensee is acting under personal name, with other partners, or as an entity.
- B. A licensee receiving a commission in connection with property s/he is buying must disclose fact to the sellers and receive the seller's **written consent** to receive the specified consideration, even if the licensee was buying with a group of other non-licensed individuals.
- C. All disclosures must be in writing, and proof must be presented upon request to the Department.
- D. A broker or salesperson interested in obtaining an option on property must make his/her true position known to the owner.

5. COMMISSIONS FOR OTHER SERVICES:

- A. A licensee who is entitled to receive, either directly or indirectly, a real estate commission as a result of the sale of property, may not also receive a referral fee or other valuable consideration for placing a loan in connection with that transaction unless the licensee obtains the prior written consent of the buyer and seller in that transaction and the fee is not otherwise prohibited by the real estate settlement procedures Act (RESPA).
- B. A licensee who is entitled to receive, either directly or indirectly, a real estate commission as a result of the sale of property, may not also receive a referral fee or other valuable consideration from an abstract, home warranty, title insurance, or other settlement service provider in connection with that transaction unless the licensee obtains the prior written consent of the party or parties with whom the licensee has an agency relationship and the fee is not otherwise prohibited by the real estate settlement procedures Act (RESPA).

6. DUAL AGENCY:

- A. Licensee becomes agent of opposite parties in the same transaction
- B. Legal with proper written consent from all parties.
- C. Licensee will not be able to disclose all known information to either the seller or the buyer.

**MICHIGAN STATE LAWS AND RULES
STATUTORY REQUIREMENTS GOVERNING ACTIVITIES**

**HANDLING OF CONTRACTS, DOCUMENTS,
LISTING AND RECOMMENDATIONS**

**OFFERS TO PURCHASE
(PURCHASE AGREEMENTS, SALES CONTRACTS):**

1. Upon receiving an offer to purchase, a licensee must give the buyer a true copy of the signed offer.
2. All written offers must be **PROMPTLY PRESENTED** to the seller whether in person or through electronic communications. An agent does not have to present a signed offer if another offer has already been accepted by the seller unless required in the listing agreement.
3. When an offer has been accepted, the licensee shall **DELIVER COPIES** of the accepted offers to **ALL PARTIES**.
4. A licensee shall not be subject to disciplinary action for failing to submit to the seller any additional offers to purchase which are received after the seller has accepted an offer and the sales agreement is fully executed, unless a service provision agreement requires that subsequent offers be presented.
5. The licensee, upon receiving an offer to purchase shall recommend to the purchaser that a **TITLE INSURANCE** policy (Owners Policy) be submitted by the seller to the buyer.

**LISTING AGREEMENTS /
BUYER AGENCY AGREEMENTS:**

1. Also referred to as "**Service Provision Agreement**"
2. Client must be provided with a copy upon signing the agreement.
3. Agreement shall have a **DEFINITE EXPIRATION DATE**.
4. Agreement shall not require the client to send a written cancellation notice upon expiration of service term.
5. Agreement must have an **ANTI-DISCRIMINATION CLAUSE** stating that Discrimination Because Of Race, Color, Religion, National Origin, Age, Sex, Marital Status, Disability And Familial Status Is Prohibited By Law.
6. **A Net Listing** or net Buyer agency agreement **is prohibited**.
7. "**Property management employment contract**" means the written agreement entered into between a real estate broker and client concerning the real estate broker's employment as a property manager for the client; setting

MICHIGAN STATE LAWS AND RULES STATUTORY REQUIREMENTS GOVERNING ACTIVITIES

forth the real estate broker's duties, responsibilities, and activities as a property manager; and setting forth the handling, management, safekeeping, investment, disbursement, and use of property management money, funds, and accounts.

HANDLING OF MONIES AND TRUST ACCOUNTS

DEPOSITS

1. All monies received from others in connection with a real estate activity must be deposited in the broker's TRUST (ESCROW) ACCOUNT. **Rental income / security deposits** from tenants must be deposited in a separate management account.
2. A real estate salesperson shall pay or deliver to the real estate broker, **upon receipt**, a deposit or other money paid in connection with a transaction in which the real estate salesperson is engaged on behalf of the real estate broker.
3. A salesperson shall not accept a deposit check made out to salesperson. All checks must be written to the order of the broker (as licensed).
4. A broker who receives a deposit shall be responsible for it in full at the time of consummation or termination of the transaction. A broker who illegally uses money deposited in his trust fund for personal use can be found **guilty of embezzlement / illegal conversion of funds**.
5. A broker must deposit the earnest money in the trust account no more than **(2) two banking days** after receiving notice that an offer to purchase is accepted by all parties.

If a purchase agreement signed by a seller and purchaser provides that a deposit be held by an escrowee other than a real estate broker, a licensee in possession of such a deposit shall cause the deposit to be delivered to the named escrowee within 2 banking days after the licensee has received notice that an offer to purchase is accepted by all parties.

6. Disbursement of an earnest money deposit shall be made in accordance with the agreement signed between the parties. However, if there is a deposit dispute, funds shall remain in the broker's trust account until a civil action has determined to whom the deposit must be paid, or until the buyer and seller have agreed, in writing, to the disposition of the deposit. The broker may also commence a civil action to interplead the deposit with the proper court.

TRUST ACCOUNTS (ESCROW ACCOUNT)

1. A broker may maintain more than one trust account and may have up to two thousand (\$2,000) dollars of his own money, in each trust account.

**MICHIGAN STATE LAWS AND RULES
STATUTORY REQUIREMENTS GOVERNING ACTIVITIES**

2. The trust account must be held with a financial institution in a non-interest bearing **demand account**. A Broker can maintain **more than one trust account** especially if the amount of deposits exceed the FDIC insurance limit that is available per account.
3. Checks drawn must be signed by a broker or associate broker
4. Cosignatories may be used; an individual who is not a broker or associate broker may be authorized to sign checks drawn against the trust account only if his/her signature is accompanied by the signature of a broker or an associate broker.
5. **"Property management account"** means an interest-bearing or noninterest-bearing account or instrument used in the operation of property management.

**PLACE OF BUSINESS/BRANCH OFFICE
REQUIREMENTS (BROKER ONLY)**

1. A broker may do business any place in the State.
2. A broker must maintain an ACTUAL PHYSICAL LOCATION where business is conducted and records are kept.
3. A broker who has a branch office must be reasonably available to supervise that location. A branch office is any location in addition to the broker's main where the broker regularly does business, meet with clients, or such location is held out to the public as a place of business.
4. A duplicate license must be secured for each branch office.
5. A branch office that is more than twenty-five **(25)** miles from the city limit where the broker's main office is maintained must be under the direct supervision of an associate broker.
6. A broker may not change an address of a place of business without first notifying the Department.

RECORD KEEPING

A broker shall maintain bookkeeping for at least 3 years. At a minimum, the system shall consist of both of the following:

(a) A record which shows the chronological sequence in which funds are received and disbursed, as follows:

(i) For funds received, the record shall include all of the following information:

- (A) The date of receipt and deposit and the date it is deposited at the trust fund.
- (B) The name of the party who provided the funds to the broker.

**MICHIGAN STATE LAWS AND RULES
STATUTORY REQUIREMENTS GOVERNING ACTIVITIES**

- (C) The name of the seller.
- (D) The amount and purpose of the funds.

(ii) For funds disbursed, the record shall include all of the following information:

- (A) The date of the disbursement.
- (B) The payee.
- (C) The check number.
- (D) The purpose of the disbursement.
- (E) The amount of the disbursement.

(iii) A current balance of the account or accounts shall be maintained and be available to the department upon request.

(b) A record which shows receipts and disbursements as they affect a single, particular transaction between a buyer and seller. The record shall segregate 1 transaction from another transaction as follows:

(i) For funds received, the record shall include all of the following information:

- (A) The names of both parties to a transaction.
- (B) The property address or brief legal description.
- (C) The dates and amounts received.

(ii) For funds disbursed, the record shall include all of the following information:

- (A) The date.
- (B) The payee.
- (C) The check number.
- (D) The amount of the disbursement.

Bookkeeping for Property Management

1. Management duties are governed by the management employment contract.
2. A manager shall maintain property management accounts separate from all other accounts and managed in accordance with the property management employment contract.
3. A property management account may be an interest-bearing account or instrument, unless the property management employment contract provides to the contrary. Any interest shall be handled in accordance with the employment contract.
4. The manager shall maintain records of
 - a- funds deposited and withdrawn from property management accounts
 - b- date of the transaction, from whom the money was received or to whom it was given
 - c- other pertinent information concerning the transaction the property management employment contract may require.
5. Records are subject to inspection by the department.

MICHIGAN STATE LAWS AND RULES STATUTORY REQUIREMENTS GOVERNING ACTIVITIES

INDUCEMENTS

LOTTERY, GAMES, AND CONTESTS

A real estate broker or salesperson may not promote the sale of real estate using a plan involving a lottery, contest, game, prize, or a drawing.

However, offering **the same gift** by a broker to all clients or customers does not violate the rules.

Example: Broker advertises: "list your house with me in the month of April and your name will go into a drawing to win a vacation" this ad is illegal.

If broker advertises: "list your house with my company in April and get a toaster oven", this ad is legal because there is no element of chance.

ALTERNATIVE DISPUTE RESOLUTION VS. ARBITRATION (BROKER ONLY)

ARBITRATION

1- A form of dispute resolution by which parties to a dispute agree to submit to in order to have their dispute/disagreement finally decided by a single arbitrator or panel of arbitrators.

2- If the parties agree to binding arbitration, the parties may not seek relief with the courts unless they allege that the arbitrator was biased or s/he exceeded his/her authority.

3- According to Michigan law, a party may seek a court order to enforce the results of arbitration.

4- If the parties to a contract wish to settle their disputes through arbitration, their contract should state that fact. If a contract does not call for arbitration, the parties may agree to arbitration at a later time once a dispute arises.

5- Arbitration process is generally faster and less expensive than court procedure.

6- Arbitration in Michigan is governed by the Uniform Arbitration ACT 371 of 2012

**MICHIGAN STATE LAWS AND RULES
STATUTORY REQUIREMENTS GOVERNING ACTIVITIES**

**NO DISCLOSURE DUTY ATTACHES
TO STIGMATIZED PROPERTY**

1. Property may have been the scene of a murder, suicide, drug activity, or other stigmatizing event
2. No disclosure duty is imposed under Michigan Law
3. Licensee may disclose knowledge of registered former sex offenders who are known to be living within a close proximity of property. Failing to disclose information shall not be grounds for action against licensee

MICHIGAN SEX OFFENDERS REGISTRATION ACT - PA 295 of 1994

1. Individuals residing in Michigan must register with the local police department if he or she was convicted of a sex offense after October 1, 1995. Names are published online.
2. Article 25, Section 2518 of the Michigan Occupational Code states "An action shall not be brought against a real estate broker, an associate broker, or a real estate salesperson under the following circumstances:

"For failure to disclose any information from the compilation that is provided or made available under the Sex Offenders Registration Act."

CLOSING RESPONSIBILITIES

1. A broker/associate broker involved in a transaction shall conduct the closing personally or may have a salesperson or other person(s) conduct the closing **UNDER THE BROKER/ASSOCIATE BROKER COMPLETE SUPERVISION.**
2. Supervision can be conducted in person or through other electronic means such as telephone, email, etc.
3. A broker or associate broker who is involved at the closing shall furnish, or cause to be furnished, to the buyer and seller, a complete and detailed closing statement **signed by the broker or associated broker** showing each party all receipts and disbursements affecting that party. This requirement **does not apply if the closing is conducted by a title insurance company.**
4. A transaction may not be closed contrary to the original purchase agreement without written approval of the buyers and the sellers. I.E. **AN AMENDMENT** must be prepared and signed by all the parties.
5. In case of co-operating brokers, the final responsibility for the closing lies with the listing broker/associate brokers.

MICHIGAN STATE LAWS AND RULES

CONTRACTUAL RELATIONSHIPS

Contractual Relationships (Salesperson – 5 Items, Broker – 5 Items)

Agency relationships available in MI

1. Transaction coordinator
2. Designated agency
3. Dual agency
4. Agency disclosures

Broker/Salesperson relationships

Service Provision Agreements (Listings, Buyer Broker)

AGENCY RELATIONSHIPS AVAILABLE IN MICHIGAN (DISCUSSED EARLIER UNDER “GENERAL PRINCIPLES OF AGENCY” SECTION

1. TRANSACTION COORDINATOR

2. DESIGNATED AGENCY

3. DUAL AGENCY

4. AGENCY DISCLOSURE

BROKER/SALESPERSON RELATIONSHIPS

1. A salesperson licensed under a broker is responsible only to that broker and can carry out only those responsibilities assigned by that broker.
2. A salesperson has no authority to make contracts or receive compensation directly from a principal. All activities are performed in the name of the broker.

3. Determination of Independent Contractor

A. The **employment contract** between broker and salespersons sets the pace for whether the salesperson is an employee or an independent contractor

B. In defining legal responsibilities, state license laws generally treat the salesperson as an employee. Therefore, **any wrongdoing may be reflected on both, the salesperson and the broker.**

C. **Tests applied by administrative bodies and courts** may conclude type of relationship based on a number of the following factors (none of these should be taken as a sole indication)

1. **A written contract clearly identifying the salesperson/associate broker as an independent contractor and NOT an employee**
2. **Setting work hours**
3. **Mandating place of business**
4. **Method of payment (guaranteed wage or strictly commission)**
5. **Withholding payroll taxes and**
6. **Dress code**
7. **Paying benefits.**

MICHIGAN STATE LAWS AND RULES

CONTRACTUAL RELATIONSHIPS

COMPANY POLICIES, PROCEDURES AND STANDARDS

Broker is required to supervise salespersons and associate brokers

“SUPERVISION: The overseeing or participation in the work of another individual by a broker or associate broker with the following minimum circumstances:

1. Direct communication in person, radio, telephone or other telecommunication between supervised individual and broker/associate broker who is available on a continuous basis.
2. Licensed broker or associate broker is available on a regularly scheduled basis to do all of the following:
 - A. Review the practice of the supervised individual
 - B. Provide consultation
 - C. Review records
 - D. Further educate the supervised individual in the performance of the individual’s functions
3. Supervising broker/associate broker provides predetermined operating policies and procedures to assist salespersons and associate brokers in day-to-day activity and outlines legal requirements of practice and company policy on certain issues such as:
 - A. Work ethics
 - B. Obtaining listings
 - C. Handling funds
 - D. Advertising
 - E. Closings
 - F. Compensation, etc.

**MICHIGAN STATE LAWS AND RULES
ADDITIONAL STATE TOPICS/LAND DIVISION ACT**

Additional State Topics (Salesperson-5 Items, Broker-6 Items)

Land Division Act - Public Act 591 (Disclosure of Private Road)
Michigan fair housing
 1. Elliott-Larsen Civil Rights Act
 2. Persons with Disabilities Civil Rights Act
Landlord Tenant Relationship Act, Truth in Renting Act
Usury laws (Broker only)
State Transfer Tax
Michigan Condominium Act
Michigan State Housing Development Authority (MSHDA)
Uniform State Anti-trust Act
Michigan Right to Farm Act (Seller's Disclosure Required)
Changes in the Land Contract Laws (Dodd Frank Law-federal)

**LAND DIVISION ACT - PUBLIC ACT 591
(DISCLOSURE OF PRIVATE ROAD)**

1. PURPOSE:

A. So that the land may be properly divided and laid out, under uniform condition that applies to all landowners in order to make the land suitable to build on or to use for any public improvements.

B. So that when the land is bought and sold, people could accurately and upon the proper surveys, tell the boundaries of their land and be able to use accurate **legal description**.

C. So that the size of the divided parcels of land will not be too large to be served with enough streets, roads, and adequate drainage and sewers.

PERCOLATION TEST: Performed to measure how well land absorbs water in order to determine the design of a septic system.

NOTE: Unincorporated land is treated differently and may have to be maintained by the property owners themselves, **i.e. Private Roads**.

SPLITS ALLOWED WITHOUT FORMALLY CREATING A SUBDIVISION?

A. Property 10 Acres or less can be divided into 4 parcels.

B. One additional split allowed for each additional 10 acres up to parcels 120 acres in size.

C. One additional split for each additional 40 acres above 120 acres.

**MICHIGAN STATE LAWS AND RULES
ADDITIONAL STATE TOPICS/LAND DIVISION ACT**

D. Two bonus splits if a new road is built to accommodate access or if at least 60% of original parcel is maintained in one parcel after the split.

E. New parcels over 40 acres in size earn their own split rights after a 10 year wait.

Example: Assuming that at least 60% of the original parcel is left as one parcel, how many parcels can a developer create out of 40 acres without formally subdividing?

Answer: Total of (9) parcels. 4 splits for the first 10 acres, 1 more split for each additional 10 acres above the first 10 acres and 2 additional bonus splits for keeping 60% of original parcel as one parcel.

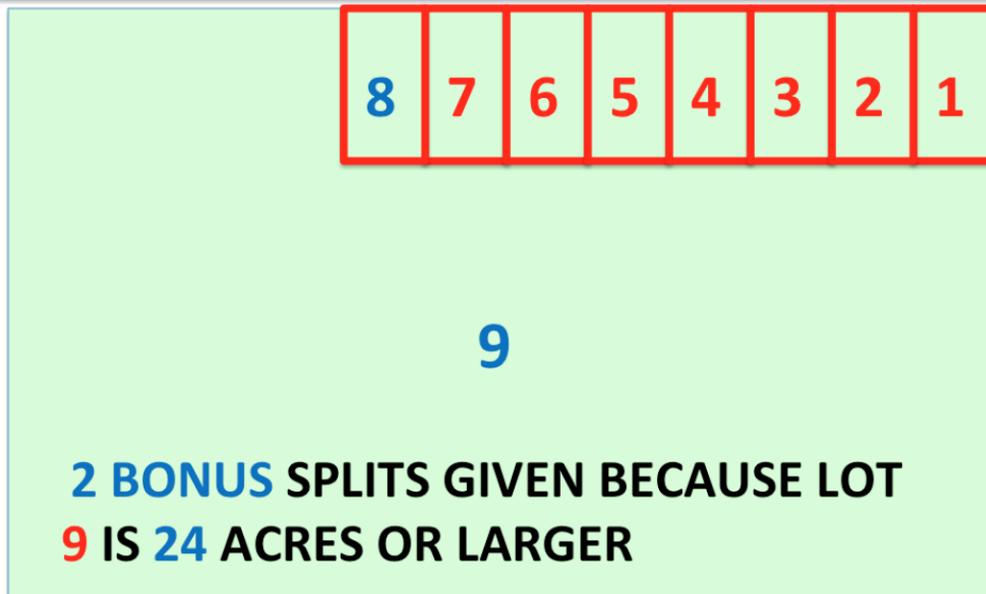
F. To qualify for splitting, the property must qualify as a "parent parcel", i.e. parcel must have existed on or before March 31st 1997.

PENALTIES:

A sale of land split in violation of the act is voidable at the option of the purchaser. The seller must forfeit any consideration and is liable to the purchaser for damages. As of October 1, 1997, a violation of the division and exempt split provisions is punishable by a \$1,000 civil fine for each parcel sold.

**MICHIGAN STATE LAWS AND RULES
ADDITIONAL STATE TOPICS/LAND DIVISION ACT**

SIZE	SPLITS ALLOWED
FIRST 10 ACRES	4 SPLITS
NEXT 10 ACRES	1 SPLIT
NEXT 10 ACRES	1 SPLIT
NEXT 10 ACRES	1 SPLIT
TOTAL 40 ACRES	7 SPLITS
ONE OF THE PARCELS IS 60%	2 BONUS SPLITS
TOTAL	9 SPLITS



40 ACRES

**MICHIGAN STATE LAWS AND RULES
LANDLORD TENANT RELATIONSHIP ACT**

MICHIGAN FAIR HOUSING

- 1. ELLIOTT-LARSEN CIVIL RIGHTS ACT**
- 2. PERSONS WITH DISABILITIES CIVIL RIGHTS ACT**

**LANDLORD TENANT RELATIONSHIP ACT,
TRUTH IN RENTING ACT**

Regulates the relationships between landlords and tenants relative to rental agreements for residential rental units.

THE SECURITY DEPOSIT ACT

1. SECURITY DEPOSIT: Is an advance amount paid by the tenant to the landlord (not including the first rental period) and must be refunded upon expiration of the lease term unless the landlord legally establishes the right to a portion or all of it.

2. AMOUNT: Shall not exceed one and one-half month rent, in addition to the first month's rent.

Example: House rents for \$400 per month, what is the maximum amount that can be charged to the tenant to move in?

Answer: Security deposit is one and one-half of a month's rent maximum equals \$600 and the first month rent is \$400 therefore the total is \$1000.

3. REQUIREMENTS: Landlord shall not require a security deposit unless tenant has been notified in writing, no later than 14 days after the tenant's possession of property, of the following:

- A. Name and address of landlord.
- B. Name and address of the financial institution where the deposit is held.
- C. Tenant's obligation to notify, within 4 days of terminating occupancy, of a forwarding address. Notice should include the following statement, in twelve points, bold face type, at least four points larger than the body of the notice or lease agreement:

NOTICE

YOU MUST NOTIFY YOUR LANDLORD, IN WRITING, WITHIN 4 DAYS AFTER YOU MOVE, OF A FORWARDING ADDRESS, WHERE YOU CAN BE REACHED AND WHERE YOU WILL RECEIVE MAIL. OTHERWISE, YOUR LANDLORD SHALL BE RELIEVED OF SENDING AN ITEMIZED LIST OF DAMAGES AND, THE PENALTY ADHERENT TO THAT FAILURE.

**MICHIGAN STATE LAWS AND RULES
LANDLORD TENANT RELATIONSHIP ACT**

4. USE OF SECURITY DEPOSIT:

- A. To reimburse the landlord for damages, caused by the tenant.
- B. To reimburse the landlord for delinquent rent, utility bills, rent due from premature termination of lease.

5. INVENTORY CHECKLIST:

- A. Landlord shall use inventory checklists at the commencement and termination of tenancy to show property condition in detail including but not limited to, carpeting, draperies, appliances, windows, furniture, walls, closets, shelves, paint, doors, plumbing fixtures, and, electric fixtures.
- B. Upon lease commencement, landlord shall give two copies of the inventory checklist to tenant. Those copies shall be the same used for the termination of occupancy and tenant shall complete such, and return one copy to the landlord, within 7 days of occupancy. The checklist shall contain the following, in twelve points, bold face type, at the top of the first page:

**NOTICE
YOU SHOULD COMPLETE THIS CHECKLIST, NOTING THE
CONDITION OF THE RENTAL PROPERTY, AND, RETURN IT TO
THE LANDLORD, WITHIN 7 DAYS AFTER OBTAINING
POSSESSION OF THE RENTAL UNIT. YOU ARE ALSO
ENTITLED TO REQUEST AND RECEIVE A COPY OF THE LAST
TERMINATION INVENTORY CHECKLIST, WHICH, SHOWS
WHAT CLAIMS WERE CHARGEABLE TO THE LAST PRIOR
TENANTS.**

6. DAMAGES:

- A. Upon termination of occupancy, landlord must send to the tenant, within 30 days, a list of damages including cost of repair and a check for the difference. The notice shall include the following in twelve points bold face type at least four points larger than the body of the notice:

**NOTICE
YOU MUST RESPOND TO THIS NOTICE, BY MAIL, WITHIN 7
DAYS AFTER RECEIPT IS OBTAINED, OTHERWISE, YOU WILL
FORFEIT THE AMOUNT CLAIMED FOR DAMAGES.**

MICHIGAN STATE LAWS AND RULES MICHIGAN CONDOMINIUM ACT

B. Failing to send notice within 30 days constitutes agreement that no damages occurred and landlord shall remit deposit immediately to tenant. If tenant fails to provide landlord with forwarding address, within four days of termination of occupancy, landlord is relieved from sending damage notice.

USURY LAWS (BROKER ONLY)

Laws that limit the legal interest rate a lender can charge the borrower.

1. In Michigan, **criminal usury ceiling is set at 25% APR**. While regulated lenders may charge up to 25% APR, non-regulated lenders cannot usually exceed 11% APR (certain exemptions apply).
2. A seller of a "free and clear" principal residence (i.e. the seller owes no money and is placing a first lien) can charge more than 11%.
3. A creditor who charges a usurious interest rate may legally lose its right to collect interest **for the life of the loan**.

MICHIGAN CONDOMINIUM ACT

I. Information given to prospective purchaser for new construction

1. Must provide detailed information concerning construction and proposed operating procedures.
2. Preliminary reservation agreement gives purchaser first opportunity to buy but can never binds parties.
3. Purchase agreement is not binding until nine (9) business days after developer delivers condominium documents to purchaser.
4. Condominium documents must include:
 - A. Recorded master deed with attached by-laws and subdivision plans
 - B. Copy of purchase and escrow agreements
 - C. Condominium Buyers Handbook
 - D. Disclosure Statement

II. TIME-SHARE UNITS

1. Involves separation of individual units from common areas
2. Allows owner to purchase specific time intervals
3. Also called "interval ownership"

**MICHIGAN STATE LAWS AND RULES
MICHIGAN CONDOMINIUM ACT**

III. LEASEHOLD CONDOMINIUMS

1. If owner wants to rent his/her unit he/she must give association notice and supply them with copy of lease.
2. Tenant must follow all condominium rules and by-laws.
3. If tenant fails to follow rules or by-laws, association may evict him.

IV. CONDOMINIUM CONVERSIONS

1. Covers conversion of any building (residential use only) from rental to condominium ownership if it has six (6) or more rental units.
2. Protects any person living on premises (not necessarily the "tenant")
 - A. People with specific disability recognized by state income tax law
 - B. Residents over age of 65 years
3. For each qualified resident, developer must make offer of extended lease [specific qualifications, terms and conditions should be referenced in statute for further clarification].

**MICHIGAN STATE HOUSING
DEVELOPMENT AUTHORITY (MSHDA)**

1. PURPOSE

Addresses housing needs of Michigan's low and moderate-income citizens

- A. Authority's loans and operating expenses are financed through sale of tax-exempt bonds and notes to private investors.
- B. Proceeds of notes and bonds are loaned at below-market interest rates to developers of rental housing, for single-family home mortgages and for home improvement loans.

2. ROLE IN SINGLE FAMILY

- A. For low and moderate-income households.
- B. Borrowers must occupy property as principal residence.

MICHIGAN STATE LAWS AND RULES MSHDA

- C. No MSHDA funds for refinancing.
- D. New homes: dwellings must be constructed by licensed residential builder or erected by licensed mobile home dealer.
- E. Previously occupied home: used homes, condominiums if not conversions from rental units, used mobile homes if multiple-section on foundations permanently affixed to real estate.

UNIFORM STATE ANTI-TRUST ACT

1. Certain types of trade restraints are so injurious to competition no justification can ever be advanced to sustain them and are defined as "per se" unreasonable

- A. Price-fixing
- B. Boycotts or concerted refusals to deal
- C. Territorial or custom allocation
- D. Tying agreements

2. Examples of dangerous words or phrases by real estate licensees, which may evidence anti-trust violations and permit a judge to infer illegal conspiracy:

- A. "Everyone charges the same commission rate."
- B. "The MLS only accepts 90 day listings."
- C. "We shouldn't cooperate with any broker who cuts his/her commissions."
- D. "The MLS has a rule against lowering commission rates."
- E. "Nobody works on his/her listings because of the low rates s/he charges."
- F. "Let's do something about his/her discount fee policy."
- G. "This is our market area. Tell him to stay in his/her own territory."

3. Criminal prosecution shall not be brought under Michigan Antitrust Act if prosecution has been initiated under federal Sherman Antitrust Act arising out of same transaction or occurrences.

**MICHIGAN STATE LAWS AND RULES
UNIFORM STATE ANTI-TRUST ACT**

4. Penalties under federal and state statutes

- A. Felony conviction
- B. Fine not to exceed \$100,000
- C. Imprisonment not to exceed three (3) years
- D. Any person injured in his/her business or property by anyone violating Act may sue and recover treble damages plus reasonable attorney fees

5. Liability insurance will not cover criminal act and violation of antitrust law is a criminal act.

 **NOTE:** Licensees must not participate in discussions with other competing agents that may suggest “price fixing” or other violations. If a licensee happens to be in a meeting where these issues are discussed or suggested, the licensee must leave the meeting if s/he does not want to be implicated in a conspiracy.

**MICHIGAN RIGHT TO FARM ACT
(SELLER’S DISCLOSURE REQUIRED)**

1. Defines certain farm uses, operations, practices, and products; to provide certain disclosures

2. Provides for circumstances under which a farm shall not be found to be a public or private nuisance

A. A farm or farm operation shall not be found to be a public or private nuisance if the farm operation **conforms** to generally accept agricultural and management practices according to policy determined by the Michigan commission of agriculture.

B. A farm or farm operation shall not be found to be a public or private nuisance if the farm or farm operation **existed before** a change in the land use or occupancy of land within 1 mile of the boundaries of the farm land, and if before that change in land use or occupancy of land, the farm or farm operation would not have been a nuisance.

3. The “Seller’s disclosure form” requires the disclosure of a farm or a farming operation

See P.5- 8. **Farm or farm operation in the vicinity**; or proximity to a landfill, airport, shooting range, etc.?

unknown _____ yes _____ no _____

MICHIGAN STATE LAWS AND RULES RIGHT TO FARM ACT

4. The act protects farmers **despite local ordinances** that may pass to oppose their operation

CHANGES IN THE LAND CONTRACT LAWS (DODD FRANK LAW-FEDERAL)

EFFECTIVE JANUARY 10, 2013

A seller who finances the sale of owned residential property must use the services **of a loan originator** to qualify the buyer. The following exclusions apply:

SELLER FINANCING 1 PROPERTY WITHIN 12 MONTHS - EXCLUSION

A **natural person**, estates, and trusts (no entities) that sell only 1 property in a 12-month period and who owns the property that serves as security for the financing must comply with the following:

1. The person is **not the builder** or contractor of the residence.
2. The repayment of the balance does not result in **negative amortization**. The rule **does not** prohibit a **balloon payment**.
3. The loan interest rate is **fixed for at least five years**.

SELLER FINANCING 3 PROPERTY WITHIN 12 MONTHS - EXCLUSION

This exclusion applies to “persons” as defined broadly under TILA to include not only “natural” persons but also a **wide range of organizations such as corporations, partnerships LLCs etc.** who owns the property that serves as security for the financing:

The following requirements must be met:

1. The person is not the builder or contractor of the residence.
2. The financing is fully amortizing (**no balloon** mortgages or negative amortization).
3. The loan interest rate is fixed for at least five years.
4. The person determines in good faith that the consumer (buyer) has a reasonable ability to repay, i.e. checking W2s, 1099s, tax returns, etc.

MATH SHEET

Acre: 43,560 Sq. Ft

Tricks to remember 43,560:

A. "7-11" trick (4+3 and 5+6)

B. You can switch the "4" and "3" and it will be sequential: 34,560 (remember to switch the "3" and "4" back!)

If asked to find HALF Acres, multiply full acres X 2.

Example, if there's 5 acres and you're asked to find half acres, the answer is 10 half acres.

A company has 20,000 square feet of land. They need 4 times as much space for a new project. What is the minimum amount of acreage they need to complete the project?

- A. 1 acres
- B. 2 acres
- C. 3 acres
- D. 4 acres

Answer:

20,000 sq. ft. X 4 = 80,000 sq. ft.
80,000 sq. ft. ÷ 43,560 sq. ft. = 1.8 acres
They need at least 2 acres (B)

A parcel of land 242ft by 450ft was sold for \$50,000. What was the price per acre?

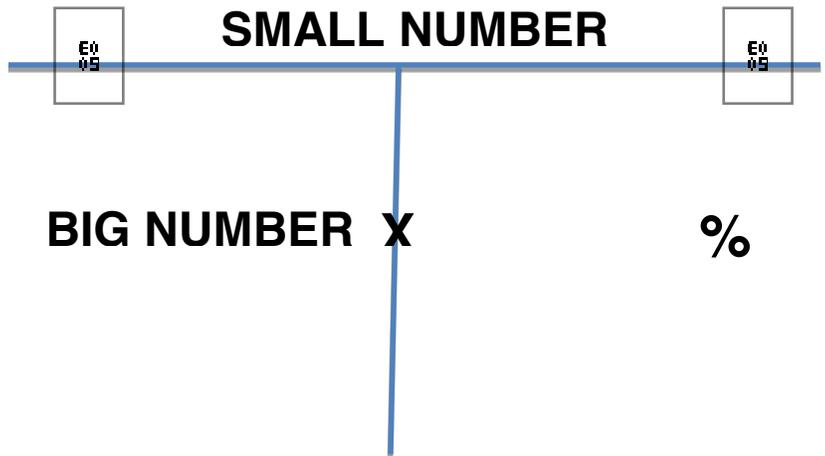
Solution:

Step 1: 242ft X 450ft = 108,900 sq.ft.
Step 2: 108,900 sq. ft ÷ 43,560 (acre) = 2.5 acres
Step 3: \$50,000 ÷ 2.5 acres = **\$20,000/acre**

Q: How many acres in the NW¼ OF SE¼ OF SW¼ OF SECTION 23?

A: 640 ÷ 4 ÷ 4 ÷ 4 = 10 Acres

Remember to start at the END of the question. So, start with the **Section 23 (640)** and go backwards (left)... its neighbor has a small "4" in the denominator. So, 640 ÷ 4. Then do it again and again.



Property is assessed at \$80,000 with 62 mills, what are the taxes due?

$$\$80,000 \times 6.2\% = \mathbf{\$4,960}$$

*Careful! They may give you the assessed value at the beginning of the question. So, don't take it and divide by 2. It's already in "half".

APPRAISED = Full Value vs. **ASSESSED** = ½ Value in MI

Loan amount \$200,000 at 6% interest. Payment \$1,500/M. What is the balance upon making 1st payment?

Step 1: \$200,000 X 6% = \$12,000/yr. ÷ 12 = \$1,000/M interest

Step 2: \$1,500 – \$1,000 = \$500 applied to principal
Step 3: \$200,000 – \$500 = **\$199,500 balance upon making first payment**

If property tax is paid **IN ADVANCE**
= Credit Seller/Debit Buyer

If property tax is paid **IN ARREARS**
= Credit Buyer/Debit Seller

Property (1) was sold for \$100,000 and brought gross rents in the amount of \$10,000/yr. What would property (2) be evaluated at with \$15,000/yr. in gross rents?

Solution: G.R.M. = \$100,000 ÷ \$10,000 = 10
10 X \$15,000 = **\$150,000**

NET OPERATING INCOME (NOI) = GROSS RENT - OPERATING EXPENSES

An investor is looking at a rate of return of 12% annually on his/her investment. The property has a gross income of \$26,000/yr. with estimated expenses of 40% of gross/yr. How much should this investor pay for this property?

Answer: NOI = \$26,000 - 40% = \$15,600
\$15,600 ÷ 12% = **\$130,000**

$$\frac{\text{NOI} = 15,600}{\text{Value} = \$130,000 \times \text{Cap} = 12\%}$$

MATH SHEET

To Calculate Transfer Tax:

MEMORIZE THIS:
(Selling Price ÷ 500) X 4.30 =

Think of this as the **FORMULA** formula. Why? Because someone is selling their home and they have to pay transfer tax to the county (\$.55 cents per \$500) and state (\$3.75 per \$500). They will not ask you to find *state tax or county tax*. Instead, they will ask you to find *transfer tax* (\$.55 + \$3.75 = \$4.30).

BE CAREFUL: They're going to throw irrelevant information at you such as Loan to Value Ratio, Points, Broker Commission, etc...
IGNORE EVERYTHING EXCEPT THE SELLING PRICE

LAND DIVISION ACT

Land up to 10 acres can be divided into 4 parcels (pieces).

- **Two bonus splits** if a new road is built to accommodate access or if at least 60% of original parcel is maintained in one parcel after the split.
- New parcels over 40 acres in size earn their own split rights after a **10 year wait**.

Example: How Many Splits Do You Get For 26 Acres of Land?

26 Acres
- 10 acres = **4 Splits**

16 Acres Left
- 10 Acres = **1 Split**

6 Acres Left (You can't split this anymore because it's not 10+)

ANSWER: 5 Splits –The answer could be written like this:
THREE 2-Acre Lots and **TWO** 10-Acre Lots

QUESTION ON POINTS:

Buyers write an offer for \$325,000 with 20% down payment, which is accepted. They must pay 1.5% discount points to obtain financing. What amount will they owe for points?

- \$3900
- \$2437.50
- \$4,875
- \$6,500

ANSWER: The house is \$325,000 and the buyers *HAVE* 20% down... Points are paid on what they *LOAN* (the loan). You have to figure out what they don't have.

\$325,000 – 20% = \$260,000 (they don't have)
\$260,000 X 1.5% = **\$3900** they owe in points

SECURITY DEPOSIT ACT:

A landlord may not collect more than 1 month + ½ month of rent as a security deposit. For example, if your rent is \$400/month:

\$400 (1st month) + \$200 (½ month) = \$600 Security Deposit
PROPERTY SECURITY DEPOSIT ACT

4 Days = A tenant has 4 days to notify their landlord of a forwarding address of where their deposit can be sent.

30 days = A landlord has 30 days to prepare an itemized list of damages to provide to tenant

7 days = The tenant has 7 days to respond

Based on a 39 year depreciation schedule. The building is valued at \$468,000. The owner kept it for 11 years. What is the adjusted basis after 11 years?

Step 1: \$468,000 ÷ 39 Years = \$12,000
Step 2: \$12,000 X 11 Years = \$132,000
Step 3: \$468,000 - \$132,000 = \$336,000

(Notice how "land value" was not given here. If that happens, just use the building value like example above).

QUESTION ON COMMISSION:

Two real estate firms shared equally a 6% commission on the sale of a house. The listing licensee was paid 60% of his brokers share. The house is sold for \$110,000. How much did the listing agent earn?

- \$1,320
- \$1,980
- \$2,640
- \$3,980

ANSWER: Two brokers are splitting 6%: 3% for one broker and 3% for the other. Let's focus on only *our broker* (3%). The Listing Licensee (you) gets 60% of your brokers 3%. If the house sold for \$110,000, *our broker* gets 3% (\$3300) and we get 60% of that... \$3300 X 60% = **\$1,980**.

GLOSSARY

GLOSSARY

ABSTRACT OF TITLE

The summary of various recorded documents relating to title, it shows any liens, judgments, taxes, etc. An attorney's opinion (certificate of title) is required to assure the buyer of the quality of title. Buyers are encouraged to use title insurance regardless of the attorney's opinion.

ACCELERATION CLAUSE

A mortgage clause that declares the entire loan balance due and payable in full immediately upon default by the borrower.

ACCRETION

The addition to real estate by gradual accumulation of soil and land through operation of nature, which may include accumulation of sand because of wind or mud to property located on water.

ACCRUED DEPRECIATION

Loss in value that the property has suffered over a period of time. It is the difference between the replacement cost of a building (as new) as of the date of the appraisal and the presently appraised value of that same building.

ACKNOWLEDGEMENT (NOTARIZATION)

A declaration made before a duly authorized official by a person testifying that he/she is that person and that he/she is signing a document with his/her free will.

ACRE

43,560 square feet

ACTUAL NOTICE (OPPOSITE OF CONSTRUCTIVE / PUBLIC NOTICE)

Actually notifying a person of an existing instrument or other claim to property by means of showing documents or other physical evidence.

AD VALOREM (LATIN WORD)

According to value. Higher property value, means higher property taxes

ADJUSTABLE RATE MORTGAGE (ARM)

A loan arrangement where the monthly payment and/or interest rates would fluctuate with market conditions at certain adjustment intervals.

ADMINISTRATIVE LAW JUDGE (ALJ)

An individual who is appointed by the Department to hear a case presented against a licensee. He or she will make a determination following the hearing and present the finding to the Board.

ADMINISTRATOR

A "Personal Representative." A person appointed by court to settle the estate of a person who died intestate (without a will).

ADMINISTRATOR'S DEED

A deed issued by an administrator (personal representative) of an estate who is appointed by probate court.

ADVERSE EASEMENT (PRESCRIPTIVE EASEMENT, EASEMENT BY PRESCRIPTION)

An easement acquired by means of a notorious and continuous use of property for the statutory period of time prescribed by state law.

ADVERSE POSSESSION

A person occupies another person's property for a statutory period of time and then seeks a court order to receive title to property. Occupancy must be continuous, notorious, and hostile.

AFFIDAVIT

A sworn written statement acknowledged by a notary public or other official authorized to administer an oath or affirmation.

AGENCY

A relationship created when a principal appoints another, called an agent, to act in a certain capacity.

AGENT

A person authorized to represent another to act on his/her behalf.

AIR RIGHTS

The right of the real estate owner to the space above his / her land up to infinity.

AIR SPACE

Space that is solely owned by a condominium co-owner located between floors, walls, and ceilings.

AMENDMENT

A necessary contract that must be signed by a buyer and seller when a transaction is being closed contrary to the original terms of the agreement.

AMENDMENT OF A PURCHASE AGREEMENT

A contract used to amend (change) the terms of a purchase agreement when some changes are necessary after an offer has successfully been negotiated and accepted by the parties, but changes are necessary before the closing.

AMENITIES

Circumstances contributing to the pleasure and enjoyment resulting from owning real estate.

GLOSSARY

AMERICANS WITH DISABILITIES ACT (ADA)

A federal law that requires public facilities, and employers, to make reasonable accommodations for disabled individuals.

AMORTIZATION

The process of making regular payments on a loan, including principal and interest.

ANNUAL

Per year.

ANTI-DISCRIMINATION CLAUSE

A statement that must be inserted in every listing agreement and buyer agency agreement (service provision agreement) stating that neither the client nor the agent would discriminate against any individual's race, color, religion, national origin, age, sex, marital status, disability, and familial status.

developments in the area where the property is located.

APPRAISAL

An opinion issued by a state licensed appraiser estimating the value of property based on property features and market conditions.

APPRAISER

A state licensed person who is employed to establish the value of property.

APPRECIATION

The increase of property value resulting from economic conditions.

APPURTENANCE

A privilege, right, or improvement that passes on with land upon transfer of title.

ARMS LENGTH TRANSACTION

A transaction that occurs in a competitive market that leads to a fair sale involving a willing buyer and seller, both acting with knowledge of the property under no duress.

ASSEMBLAGE

The merging of adjacent properties into one common ownership or use.

ASSESSED VALUE

Value allocated by the local government for tax purposes.

ASSESSOR

A person employed by the local government to evaluate property for tax purposes.

ASSIGNEE

The person to whom an assignment is made. He/she assumes the rights and responsibilities of another person who is obligated under a contract.

ASSIGNMENT

A contract used to transfer a person's rights, interest, and/or obligations under a contract to another.

ASSIGNMENT OF CONTRACT

The act of transferring a person's interest and/or obligations under a contract to another.

ASSIGNMENT OF LEASE CLAUSE

A lease clause that addresses the circumstances under which a lease can be assigned by the tenant (assignor) to another tenant (assignee). It usually requires the pre-approval of the landlord (lessor).

ASSIGNOR

A person who assigns (transfers) his / her interest in a contract to another

ASSOCIATE BROKER

A broker who is employed by another broker.

ATTORNEY-IN-FACT

A person authorized under a "power of attorney" to act on behalf of a principal in conducting business or personal activity.

BALLOON PAYMENT

A lump sum payment (larger than the normal installments made on a loan) required to pay off a loan balance.

BASE LINE

Imaginary line that runs in an East-West direction and intersects with the meridian line.

BASE RENT

The minimum amount of rent charged in a percentage lease. In addition, the lease usually requires the tenant to pay a percentage of retail sales.

BIANNUAL

Also called semi-annual, payable twice a year.

BILATERAL CONTRACT

The opposite of "unilateral contract. "Involves a promise that is exchanged for another promise.

BILL OF SALE

An instrument used to transfer interest in personal property (chattel).

BLIND AD

An illegal ad by which a licensee tries to mislead the public into thinking that the advertiser is a private party or possibly hiding his/her true identity.

BLOCK BUSTING (PANIC PEDDLING)

To profit from inducing any person to sell or rent dwellings by representing entry of certain minority group(s) into a neighborhood.

GLOSSARY

BLUE-SKY LAWS

Laws that regulate the licensing and registration of securities and security dealers.

BOARD OF DIRECTORS

An elected group of owners in a subdivision or condominium association whose job is to meet regularly to enforce the association's bylaws and to overlook the maintenance of the common elements.

BREACH OF CONTRACT

The violation of an obligation that is stated in a contract.

BUFFER ZONE

A zoning use that separates two different use districts such as planning a park between an industrial and a residential district.

BUNDLE OF RIGHTS

A group of rights that are received when property is acquired including such legal rights as possession, enjoyment, lease, sell, will, mortgage, etc.

BYLAWS

Rules enforced by subdivision and condominium associations regulating the use of properties and common elements. For example limiting the number of pets a co-owner may keep in her condominium.

CAPITAL GAINS

Gains resulting from the sale of a capital asset such as real estate.

CAPITAL IMPROVEMENT

Improvements to property that add to its value extending the useful life.

CAPITALIZATION

Determining the value of property by calculating its net operating income and dividing it by a capitalization rate.

CAPITALIZATION RATE

The rate of return that is expected to be obtained on capital invested in income property.

CASH FLOW

The income generated from income property, which is equal to the gross income minus the expenses and debt service.

CERTIFICATE OF NO DEFENSE (ESTOPEL CERTIFICATE)

An instrument signed by the mortgagor (borrower) stating the full amount of the balance and interest rate on the borrowed loan.

CERTIFICATE OF REASONABLE VALUE (CRV)

Issued by a VA approved appraiser to show Fair Market Value for purpose of financing.

CERTIFICATE OF TITLE

An opinion issued by an attorney regarding marketability of title, usually derived from a title search or an abstract of title.

CHAIN OF TITLE

The history of all of the documents affecting the transfer of property title.

CHattel MORTGAGE (SECURITY AGREEMENT)

A mortgage contract that secures a note evidencing a loan borrowed to secure personal property.

CIVIL RIGHTS ACT OF 1866

Prohibits discrimination because of race without exceptions.

CLAUSE OF CONVEYANCE (GRANTING CLAUSE)

A statement in a deed spelling out the actual conveyance of title from grantor to grantee.

CLOSING STATEMENT

A statement showing debits and credits of buyers and sellers that must be signed by the broker / associate broker at the time of closing.

CLOUD ON THE TITLE

A claim or encumbrance that is still outstanding. If proved to be valid then it will affect the marketability of title.

COLLATERAL

The property that is given as security for a loan.

COMMINGLING FUNDS

Mixing the broker's personal funds with trust account funds belonging to the public.

COMMITMENT FEE

Fee charged by a lender to guarantee a borrower that a certain promised loan interest rate and terms are set for a certain period of time.

COMMON ELEMENTS

Portions of a condominium project owned jointly by the condominium owners as tenants in common. Usually extends to all structural portions of a condominium, parking lots, yards, stairs, elevators, hallways, etc.

COMPETENT

Legally qualified to act.

COMPLAINANT

A person making a complaint against another person.

COMPOUND INTEREST

Interest accrued on previously earned interest.

CONCURRENT ESTATE

Ownership of a property by two or more persons at the same time.

CONDEMNATION

The legal process of exercising the government's right of "eminent domain."

GLOSSARY

CONDOMINIUM

Ownership of a unit in a multi-unit structure accompanied by the ownership of common elements.

CONDOMINIUM CONVERSION

The act of converting units in a rental complex into individually owned units that may be bought or sold.

CONDOMINIUM FEE (ASSOCIATION FEE)

An expense assessed in proportion to the cost necessary to operate the condominium association such as maintenance and insurance of common elements.

CONFORMITY

The placement of a property in harmony with other surrounding properties that contributes to achieving its highest and best use. For example locating a home in a subdivision rather than next to an industrial park.

CONSIDERATION

An amount of money or something of value that must be promised in a contract to make it valid.

CONSTRUCTION LIEN (MECHANIC'S LIEN)

A lien placed on real property for unpaid construction bills.

CONSTRUCTIVE NOTICE

Notice given to the public when a legal document is recorded at the "register of deeds" office. The recorded documents are available to the public and are revealed upon a title search.

CONTINGENCY

A requirement or condition in a contract that must be met to validate a contract or certain obligation.

CONTINGENT OFFER

An offer that bears a condition placed by a party to the contract. Such condition must be satisfied for the contract to become binding on that party.

CONTINUING EDUCATION REQUIREMENTS

Educational requirements consisting of 6 classroom hours that must be completed by the licensee on a yearly basis to be allowed to renew the real estate license on time.

CONTRACT

A written or oral agreement that may involve one or more parties acting in a certain capacity.

CONTRACT OF SALE (PURCHASE AGREEMENT)

Or the "buy and sell agreement" whereby the buyer and the seller agree to conduct a sale and set the price, terms and conditions of the sale.

CONTRIBUTION

Value added by one component of property in comparison to the whole. For example, how much value would an adjacent vacant lot; recently acquired for

additional parking, contribute to the entire value of a restaurant business?

CONVENTIONAL MORTGAGE

A mortgage loan arrangement that is neither insured nor guaranteed by the government.

CONVEYANCE

The transfer of interest in real property from one person to the other.

COOPERATIVES

A system of ownership reflected in leasing a unit by a stockholder of a corporation that owns the entire multi-unit structure, using a "proprietary lease."

CORPORATION

A non-living entity that is treated as a person with rights and liabilities as well as income tax.

CORRECTION DEED

A deed issued to correct an error in another deed.

COUNTEROFFER

A proposal initiated by a party to a contract resulting from a prior incoming proposal that was found to be unacceptable. The counteroffer is a way to compromise and negotiate a mutually acceptable agreement to all parties.

COVENANT

A provision entered into an instrument promising certain action or inaction possibly limiting or allowing the use of property.

COVENANT AGAINST ENCUMBRANCES

A covenant in a deed where the grantor guarantees that title is free from all encumbrances except those stated in the deed or on the public record, and that he /she will protect the buyer's title against any liens, debts or other encumbrances that may arise.

COVENANT OF FURTHER ASSURANCE

A covenant in a deed that states, if a cloud surfaces on a title after conveyance, grantor agrees that he/she will execute any instruments necessary to eliminate the problem.

COVENANT OF QUIET ENJOYMENT

A covenant in a deed where the grantor covenants that the property is free from claims of others claiming title to it.

COVENANT OF SEISIN (SEIZIN)

A deed covenant where the grantor guarantees that he is (seized) or actually possesses a fee simple or other interest in the property and has the right to convey it to the grantee.

GLOSSARY

COVENANT OF WARRANTY OF TITLE (WARRANTY FOREVER)

A covenant in a deed where the grantor forever warrants title and promises to defend the grantee's interest against all claims and will compensate the grantee with money if title became defective in the future.

CREDITOR

A person to whom money is owed by the debtor.

CUREABLE OBSOLESCENCE

Outdated features in property that may be feasibly corrected to bring the property to current standards.

CURTESY

A lifetime interest granted to the husband in his wife's real estate granted to him upon her death.

DEBT SERVICE

Loan payments including principle and interest.

DEBTOR

A person who owes money to another called the creditor.

DEDICATION

The donation of privately owned property to public use.

DEED

An instrument that conveys title in real property from one person to the other. The person giving up title is called the grantor and the person receiving title is the grantee.

DEED IN LIEU OF FORECLOSURE

A peaceful surrender of property by the mortgagor (borrower) to the mortgagee (lender) where the mortgagee agrees not to go through the foreclosure process and accepts a deed from the mortgagor who surrenders the property in full satisfaction of debt.

DEED OF TRUST

Used to convey title to a "trustee" pending an installment sale and full payment of debt at which time the "trustee" will deed the property to the buyer using a "trustee's deed."

DEED RESTRICTIONS

A requirement in a deed that limits the future use of the property being conveyed.

DEFAULT

Non-performance of an obligation

DEFEASIBLE FEE

Also called a "qualified fee. "Interest in real estate that may be terminated upon the happening of a certain event.

DEFERRED MAINTENANCE

Existing maintenance and repair requirements that are due but put off.

DEFICIENCY JUDGEMENT

A court judgment obtained by the creditor against a mortgagor when a sheriff's sale does not generate enough

money to satisfy the debt secured by the mortgage.

DELIVERY AND ACCEPTANCE

The voluntarily delivery of a deed by the grantor (during his/her lifetime) and acceptance by the grantee.

DEPRECIATION

The loss of property value.

DESIREABILITY

An economic characteristic of property affecting value which represents whether or not there are possibly buyers interested in the property that are willing, able and have the financial needs to purchase.

DETERIORATION

The physical wear and tear that leads to depreciation.

DEVISE

Real estate that is willed.

DEVISEE

The heir.

DEVISOR

The deceased.

DIRECT ENDORSEMENT

The ability of a lender to approve FHA loans without prior approval from the Federal Housing Administration as long as the loan meets the necessary requirements. The purpose is to save time on loan processing.

DISCHARGE OF MORTGAGE

A document issued and recorded by the lender as a mortgage release evidencing the satisfaction of a mortgage.

DISCOUNT POINTS

Loan fees equal to 1% of the loan amount, charged by the lender in advance at closing which helps to raise the lender's interest yield.

DOMINANT ESTATE (TENAMENT)

The property that benefits from an appurtenant easement.

DOMINANT TENANT

The owner of the dominant estate that benefits from an appurtenant easement.

DOWER RIGHT

The right of a wife, to her husband's real estate granted to her upon his death.

DUAL AGENCY

An agency relationship that involves representing opposite parties in a transaction.

GLOSSARY

DUE-ON-SALE CLAUSE (ALIENATION CLAUSE)

A mortgage clause that gives the lender the right to call the whole loan balance due when ownership of property transfers.

DURABILITY

A physical characteristic that refers to the long lasting nature of real estate.

DURESS

To use force against someone to enter into a contract.

EARNEST MONEY

The amount of deposit made by the prospective buyer on property as evidence of good faith.

EASEMENT

The right to use real property that belongs to another, for a certain purpose.

EASEMENT APPURTENANT

A "right of way" given to a neighboring property which may be used usually for ingress and egress. It is said to "run with the land".

EASEMENT BY GOVERNMENT CONDEMNATION

An easement that is obtained by the government on private property for public use. The law requires the taking to be necessary and requires the payment of fair and just compensation to the owner.

EASEMENT BY NECESSITY

A court ordered easement for the benefit of a landlocked parcel over an adjacent property to provide access.

EASEMENT BY PERSCRPTION (ADVERSE EASEMENT)

Obtained with a court order as a result of an open, continuous and notorious trespass over the property that continues for the statutory period of time.

EASEMENT BY RESERVATION

Created by a person who transfers ownership of property but withholds the right to use a portion of the property.

ECONOMIC LIFE

The length of time during which a property can be profitably utilized.

ECONOMIC OBSOLESCENCE (EXTERNAL)

Loss of value in real estate due to the exterior factors such as a declining neighborhood, air pollution, etc.

EGRESS

The way out from the property. The opposite of ingress.

EMBLEMENTS

Crops and other annual plantings that can be retained by the seller as personal property when property is sold.

EMINENT DOMAIN

The government's right to take private property for public use, provided that the taking is necessary and after paying fair and just compensation. The court action through which eminent domain is taken is known as "condemnation."

ENCROACHMENT

A trespass of a building, tree, fence, etc., over the property line of another. It may be detected by a survey.

ENCUMBRANCE

Liens, mortgages, taxes, leases, easements, judgments, deed restrictions, possibly encroachments, etc. attached to property that may become a burden and which may diminish its value. Encumbrances "run with the land", i.e. unless cleared before the sale, it continues to affect the property and must be honored by the new owner.

EQUITABLE TITLE

- (1) Interest held by a vendee under a land contract.
- (2) Interest obtained by the buyer under a contract of sale (purchase agreement) when signed by all parties.

EQUITABLE LIEN

Placed on property as a result of a civil dispute such as for compensation claim, slander, harassment, non-payment of bills, etc.

EQUITY

The difference between the property fair market value and amount of money owed on it.

EQUAL CREDIT OPPORTUNITY ACT

A federal law that prohibits lenders from discriminating against borrowers because of their minority status or because of receiving public assistance.

EROSION

The gradual wearing away of land due to the natural movement of water.

ESCALATION CLAUSE

A provision in a contract that allows for the adjustment of interest rate, payments, lease payment, etc., to satisfy certain contingencies.

ESCALATOR LEASE

A lease that contains an escalation clause which calls for future increases or decreases in rent based on future fluctuations in the property operating expenses.

GLOSSARY

ESCHEAT

The transfer of title/ownership to the State when a person dies without a will or heirs.

ESCROW ACCOUNT

- (1) In case of a budget mortgage, the bank holds money for taxes and insurance on the property in a special account. This account is adjusted as payments are received or bills are paid.
- (2) An account held by the real estate broker to deposit earnest money paid by the public.

ESTATE

- (1) Property held by a deceased person.
- (2) The degree and nature of interest a person has in real property.

ESTATE IN REMAINDER

Interest in real property created by a deed or will that names a third party or entity to whom title will pass upon death of the life tenant. The third party is referred to as the "remainder man."

ESTATE IN REVERSION

An interest in real property that reverts to the original person who granted it to the life tenant and who holds a "reversionary interest."

EXCLUSIVE AGENCY LISTING

A listing by which the broker is specified as an exclusive agent, but the seller may sell the property to a buyer procured due to the seller's efforts without paying a commission.

EXCLUSIVE RIGHT TO SELL

A listing that employs one exclusive agent and promises a fee in the event anyone procures a buyer including other competing agents or even the seller.

EXECUTED CONTRACT

A contract that has been completely performed and terminated.

EXECUTION

The signing of the deed by the grantor.

EXECUTOR

A person named in a will to handle the deceased's estate. Also may be referred to as the "personal representative" of the estate.

EXECUTOR'S DEED

A deed issued with by the executor (personal representative) of an estate.

EXECUTORY CONTRACT

A contract that has not been performed in full yet.

FAIR HOUSING AMMENDMENT OF 1988

A fair housing act that prohibits discrimination because of disability and familial status.

FANNIE MAE

The Federal National Mortgage Association. A private corporation that provides funding as a secondary market.

F.D.I.C.

Federal Deposit Insurance Corporation. A federal agency that insures deposits at commercial banks and savings and loan associations.

FEE

Interest in real property that may be inherited.

FEE SIMPLE ABSOLUTE

A non-conditional fee simple. The highest estate a person can have in real property and is only subject to government powers.

FEE SIMPLE CONDITIONAL

An interest in real estate that, although granted, terminates upon the violation of a certain activity that the new owner must not perform. For example, property that is conveyed on condition that there would be no consumption of alcohol on it.

FEE SIMPLE DETERMINABLE

An interest in real estate given for a special purpose and has a special limitation or condition that the new owner must perform. For example property is granted to a college "as long as" it is used for educational purposes.

FHA LOAN

A loan that is insured by the federal housing administration and initiated by an approved lender.

FIDUCIARY

- (1) The loyalty relationship between the agent and the principal.
- (2) The agent who owes loyalty to the principal.

FIXTURES

Personal property attached to real estate on permanent basis to become a part of it.

FIXTURES CLAUSE

A lease clause that addresses whether fixtures installed by the tenant can or cannot be removed after the expiration of the tenancy. It specifies the party responsible for the removal and repairs that may become necessary after detachment of fixtures.

FORMAL COMPLAINT

Formal charges issued by the Department, following an investigation, and determining that enough evidence exists in regards to a certain violation.

FRAUD

An intentional misstatement of facts.

GLOSSARY

FREDDIE MAC

The Federal Home Loan Mortgage Corporation. A federal agency that provides money for the secondary market.

FREEHOLD ESTATE

An interest in real property for at least a lifetime.

FUNCTIONAL OBSOLESCENCE

Loss in value of property due to poor layout, design and décor that is not up-to-date.

G.R.M.

The Gross Rent Multiplier, used in estimating value of income property based on its gross income.

GENERAL AGENT

One who is authorized to represent the principal in a range of matters.

GENERAL LIEN (BLANKET LIEN)

Applies to a group of properties that an individual owns. Usually results from the owner's personal liability such as income tax liens or a lien that is placed as a result of a blanket mortgage.

GENERAL WARRANTY DEED

A deed that contains all covenants of title.

GRADUATED LEASE (STEP-UP-LEASE)

A lease that calls for future increases in rent payment at certain future intervals.

GRADUATED PAYMENT MORTGAGE

A mortgage arrangement that contains an escalation clause that allows for lower payments or interest in the early stages of repayment with higher payment and/or interest in the future.

GRANDFATHER CLAUSE

A clause in the law that allows for the continuation of a pre-existing use, allowing an exemption from zoning laws or building codes.

GRANT

To transfer interest in real estate using a deed.

GRANTEE

A person receiving title to real estate by means of a deed.

GRANTOR

A person conveying his / her interest in real estate to another person by means of a deed.

GROSS EASEMENT

The right to use property of a person or entity who is not usually a neighbor, given mostly to utility companies such as for the purpose of gas, electricity, cable, water and sewer, etc.

GROSS LEASE

A lease that requires the tenant to pay a set amount of rent while the landlord pays the property operating expenses.

GROSS RENT

Rent collected from tenants before paying property operating expenses.

GROUND LEASE

A lease of land only used by farmers to cultivate property or by a person or entity interested in using land to place improvements on it.

GUARDIAN

A person appointed by court or by another person to handle the property and affairs of a person that is a minor or mentally incapable.

H.U.D.

The Department of Housing and Urban Development

HABENDUM CLAUSE (TO HAVE AND TO HOLD)

A deed clause that defines the extent of ownership the grantor is conveying. For example: From Anderson to Smith, "to have it and to hold it" for her natural lifetime only and upon her death, title to revert back to Anderson.

HETEROGENEITY

Physical characteristic of property affecting value that refers to the fact that every property is unique and no two parcels are alike.

HIGHEST AND BEST USE

The use of land that produces the highest value, provided that it is legal, economical, and physically possible.

HOME MORTGAGE DISCLOSURE ACT

A federal law that requires lenders whose loans are federally related to disclose the number of loans made in various areas in an effort to eliminate redlining.

HOME OWNER'S ASSOCIATION

A committee that consists of the owners in a subdivision or condominium complex whose job is to provide for regulations aimed at preserving and maintaining property values and co-owners relations. It establishes bylaws and collects association fees to pay for maintaining the common elements.

HOMESTEAD

The right given to a homeowner to exempt his / her home from judgments and bankruptcies.

GLOSSARY

HORIZONTAL PROPERTY ACT (THE CONDOMINIUM ACT / THE STRATA ACT)

The law that provide for the creation of a condominium development allowing co-owners to hold fee simple title to their units with a specified share of the common elements.

IMMOBILITY

A physical characteristic of property that refers to the fact that real estate is not moveable.

IMPLIED AGENCY

An agency relationship created by misleading a customer to believe that an agent is representing her as a client.

IMPROVEMENTS

Additions to property that is of a permanent nature such as building a house, garage, deck, installing water, sewer, and utility lines.

INCOME APPROACH

A method of appraising property using a relation between the amount of money invested and the return on investment.

INCOME PROPERTY

Real estate that produces income to the owner.

INCUREABLE OBSOLESCENCE

Outdated property features that may be very hard, impossible, or uneconomical to correct. For example, adding a garage to a home that is located on a very narrow lot, or trying to improve upon a declining neighborhood that is negatively affecting the value of the subject property.

INDEPENDENT CONTRACTOR

One who is retained to perform a certain act, but who is subject to the control and discretion of another, only as to the end result and not as to the way in which he performs the act. This person normally sets his / her own working hours, pays his / her own expenses, receives no employment benefits, and pays for his / her own income tax.

INDEX LEASE

A lease that is adjusted according to a specified index such as the consumer price index, cost of living index, etc.

INFORMAL HEARING (INFORMAL RESOLUTION CONFERENCE)

A meeting between the complainant and the respondent aimed at settling a formal complaint. It may result in license suspension, revocation, limitation, or certain fines.

INGRESS

The way to enter a property.

INGRESS AND EGRESS

Getting into the property and existing from it.

INSTALLMENT SALE METHOD

A method of purchase involving paying the purchase price for property in installments.

INSTRUMENT

A written legal documents.

INSURED MORTGAGE

A mortgage that secures debt, which is insured by a government agency or private corporation.

INTEREST PER ANNUM

Annual interest.

INTESTATE

Dying without a will.

INVENTORY CHECKLIST

Required under Michigan law to be checked when the tenants move into the residential unit and move out. It allows tenant, landlord, and possible a court of law to determine whether the property has suffered damages due to tenant's actions.

JOINT TENANCY

Ownership held by two or more people with "rights of survivorship".

JOURNAL

A bookkeeping system that consolidates transactions and monies received and paid through the broker's trust account.

JUNIOR LIEN (SECOND)

A lien placed on property after a first lien has been placed and recorded. This type of lien is secured by a junior mortgage (also called a second mortgage), which has lower priority than the first mortgage.

LAND CONTRACT

A contract by which the buyer of real estate pays the purchase price in installments. The seller retains the title to the property until the full payment of debt.

LAND DIVISION ACT

State law that regulates the dividing of land and creation of subdivisions. It requires land to be properly laid out with roads and utilities and for the subdivision to be recorded with the county register of deeds office to create accurate legal descriptions.

LATENT DEFECT

A hidden defect that is known to the seller only and cannot be revealed by an ordinary inspection of the agent or buyer. For example, a crack in a basement wall that in concealed behind drywall or paneling. Not disclosing may result in seller committing "Silent Fraud."

GLOSSARY

LEASE

A contract used to establish a rental arrangement between a lessor (landlord) and a lessee (tenant) to rent property for a pre-determined period of time.

LEASE WITH OPTION

A lease contract that includes an option clause which allows the tenant to purchase the leased property for a set price and terms, or obtain additional lease renewals.

LEASED FEE

The interest that a landlord has in the leased property.

LEASEHOLD ESTATE

The legal interest of a tenant in leased property.

LEGAL CAPACITY (CONTRACTUAL ABILITY)

Being of legal age and sound mind.

LEGAL DESCRIPTION

A unique description of land that can be relied upon to establish its boundaries with a survey.

LEGAL OBJECTIVE

The legal purpose of a contract that has been entered into. A contract for an illegal purpose is void.

LESSEE

The tenant.

LESSOR

The landlord.

LEVERAGE

The use of borrowed money to finance property.

LICENSE

- (1) A personal privilege or right granted by legal authority to perform a certain occupation.
- (2) Permission of a personal and temporary nature granted to use another person's property such as for the purpose of fishing or hunting.

LIEN

A charge or claim by a creditor against a property of a person or entity, threatening to dispose of the property to satisfy the claim.

LIEN THEORY STATES

States whose law allows lender to receive a lien on the mortgaged property and not title.

LIFE ESTATE

Interest in real property given to a person for the duration of a lifetime.

LIFE TENANT

A person or entity who receives title to the real property for the duration of a lifetime.

LIQUIDATED DAMAGES

An amount of money paid to a party in a contract to fully satisfy or "liquidate" any damages suffered.

LIS PENDENS

Notice of a pending lawsuit filed against property that may affect the marketability of title.

LITTORAL RIGHTS

Land owner's claim to the use and enjoyment of water that is adjacent to his / her property in large navigable lakes or oceans. Ownership of land extends to the high water mark.

LOAN TO VALUE RATIO

The relationship between the borrowed loan and the value of property, presented as a percentage. For example, if the value is \$100,000.00 and the loan to value ratio is 80%, a borrower can borrow \$80,000.00.

LOT-BLOCK-SUBDIVISION

A method of legal description that identifies properties by reference to a subdivision plat filed by the developer with the county register of deeds office.

MARKET COMPARISON APPROACH (MARKET DATA APPROACH)

Appraisal method that employs information available on comparable sold properties.

MARKET PRICE

The actual price paid for property at a certain point in time.

MARKET VALUE (FAIR MARKET VALUE)

What a willing buyer will most probably pay a willing seller if neither one of them is under any pressure to buy or to sell, both have reasonable knowledge of the property, and the property stays on the market for a reasonable length of time.

MARKETABLE TITLE

Unclouded title that that can be freely transferred.

MASTER DEED

A deed that converts land and improvements into a condominium project.

MERIDIAN LINE

Imaginary line that runs in a North - South direction intersecting with the base and township lines.

METES AND BOUNDS

A method of legally describing land using a "point of beginning", distance measurements, boundaries, monuments and benchmarks.

MICHIGAN TRUTH AND RENTING ACT

A law that regulates rental agreements for residential property. It provides for rights and obligations to landlords and tenants alike. It requires the inclusion of certain clauses in a residential lease to protect residential tenants.

GLOSSARY

MILL

Equal to one tenth of one cent or 0.001 of a dollar.

MINOR

A person who is under the age of majority.

MONUMENT

Evidence of a boundary. Such as a concrete block, wooden stake, iron pipes, trees, streams, fences, or any other identifiable object.

MORTGAGE

A contract used to hypothecate property as security for a debt.

MORTGAGEE

A person or entity that receives a mortgage contract from a debtor.

MORTGAGEE'S TITLE POLICY (LENDER'S POLICY)

A title insurance policy (issued for the amount of the loan) that insures the lender's interest in the property against losses due to a defective title.

MORTGAGOR

Person or entity that delivers a mortgage contract to a creditor to secure a loan.

NAKED TITLE

Title held by a person or entity without the bundle of rights.

NET LEASE

A lease that requires the tenant to pay rent plus property operating expenses.

NET LISTING

A listing that involves a seller who is promised a minimum price for the property above which the broker receives his / her commission as the difference between the sale price minus the minimum amount guaranteed to the seller. Illegal in many states.

NET OPERATING INCOME

Yearly income, generated from property after paying all operating expenses.

NET OPERATING INCOME (NOI)

Is equal to the yearly gross rent received from income property minus the yearly operating expenses.

NON-CONFORMING USE

The use of property that is inconsistent with the zoning law.

NON-FREEHOLD ESTATES

Leasehold Interest in real property for less than a lifetime.

NON-LIVING ENTITY AS A BROKER

A corporation, partnership, association, joint venture, trust, or limited liability company that holds a real estate broker's license. It consists of at least one associate broker.

NON-MATERIAL FACTS

Facts about property of no effect on value such as the reason for the sale. Example: Seller lost his / her job and is desperate for money.

NON-PRINCIPAL ASSOCIATE BROKER

An associate broker who is not an officer or member of a real estate entity. He / she has no power to make decisions for the entity.

NON-RESIDENT LICENSEE

An individual who is licensed in the state of Michigan, who actually resides in another state. She / he must meet all of the licensing requirements for the state of Michigan and sign an "irrevocable consent of service".

NOTICE TO QUIT

A legal notice given to a tenant demanding that the tenant vacates the leased premises within a limited time.

NOVATION

The substitution of a person or entity in place of another. Or the substitution of a contract in place of an existing one.

OFFEREE

The person to whom the offer is made.

OFFEROR

The person making the offer.

OPEN END MORTGAGE

A mortgage that allows the borrower to borrow up to a predetermined line of credit.

OPEN LISTING

The owner reserves the right to hire more than one broker to list the property (at the same time) and pays one commission only to the broker who sells it.

OPERATING BUDGET

A statement used to forecast future rents, vacancies, and operating expenses for income producing property.

OPERATING EXPENSES

Necessary costs to operate the income property such as property taxes, maintenance, insurance, utilities, and management fees (not including the debt service).

OPTION CONTRACT

A contract used to reserve the right to purchase or lease property during a set period of time and for a specified price and terms.

OPTIONEE

A person who receives an option to buy or lease a property.

GLOSSARY

OPTIONOR

The person who gives an option on property.

ORDINARY LIFE ESTATE

An interest in real estate given for the duration of the new owners lifetime. Upon their death, property will revert back to the grantor or a third specified party.

OWNER'S ASSOCIATION

A committee that is formed to establish regulations in condominium projects and subdivisions.

OWNER'S TITLE POLICY

Title insurance policy issued in the name of the new property owner, usually provided and paid for by the seller. The policy is issued in the amount of the purchase price and protects the purchaser and his / her heirs against losses due to a defective title.

PARTITION SUIT

Originated by one or more co-owners asking the court to order the splitting of their interest to end the tenancy when a voluntary agreement cannot be reached.

PARTY DRIVEWAY

A driveway that is shared between two adjacent properties.(An example of an appurtenant easement).

PARTY WALL

A wall that is located on the lot line between two adjacent properties. (An example of an appurtenant easement).

PATENT DEFECT

A defect that can be discovered as a result of a reasonable inspection that is conducted on the property such as a roof leak, furnace problem, etc.

PERCENTAGE LEASE

A lease that sets the rent amount based on retail sales generated by the tenants business.

PERCOLATION TEST

Performed to measure how well land absorbs water in order to determine the design of a septic system. If an offer is being made to purchase land that is not served with city sewers than the offer should be subject to a percolation test.

PERENIAL PLANTINGS

Trees, lawns, shrubs, etc. that continue to grow on property without the need of replanting every season. They are considered as real estate and are expected to be included in the sale of property.

PERSONAL PROPERTY (CHATTEL)

Movable goods that are not permanently attached to real property such as furniture, appliances, other free standing items, etc.

PHYSICAL DETERIOTATION

A factor that contributes to loss of value due to wear and tear of property such as a roof leak, problem with plumbing, electrical wiring, etc.

PITI

Refers to a mortgage loan payment that includes principal, interest, taxes and insurance.

PLAT

A map showing location and dimensions of property.

POCKET CARD

An identification card, supplied by the department to a licensee, which must be carried while doing business.

POINTS

A loan fee charged by the lender to originate and / or process a loan. Each point represents one percent of the loan amount.

POINT OF BEGINNING (P.O.B.)

The monument where the metes and bounds description starts and ends.

POLICE POWER

Power vested in government to make laws and regulations for the health, safety, and welfare of the public, such as planning, zoning, building codes, health codes, environmental protection laws, etc.

POWER OF ATTORNEY

An instrument that authorizes a person to act on behalf of another.

PREPAYMENT PENALTY

Charged by a lender to the borrower who pays a loan balance early, i.e., before the scheduled payback time.

PRIMARY LENDER

A lender who initiates the loan to the borrower such as, commercial banks, credit unions, saving and loans, etc.

PRINCIPAL

A person who authorizes another called an agent to act on his / her behalf.

PRINCIPAL ASSOCIATE BROKER

An officer or member of an entity designated by the real estate broker as active. This person can run the non-living entity and has decision-making powers. In the event that there are several officers/principal associate brokers, only one principal broker is designated as the "broker of record" who is in charge of the day-to-day business decisions and supervision.

PROCURING CAUSE

The effort that leads to finding a buyer, which ultimately results in a sale.

GLOSSARY

PROMISSORY NOTE

Evidence of debt showing the loan amount, interest rate, and payment method.

PROPRIETARY LEASE

The lease given by a corporation to a shareholder in a cooperative housing project.

PROTECTION CLAUSE (IN A LISTING AGREEMENT)

A clause inserted in a listing agreement aimed at protecting the listing broker in the event that a buyer who was found by the broker returns to purchase the property directly from the owner but after the expiration date of the listing agreement.

PUFFING

The fraudulent exaggeration of facts.

PUR AUTRE VIE ESTATE

An interest in real property granted for the life of a third party other than the person that granted the estate or the new owner.

PURCHASE AGREEMENT—"Contract of Sale"

A buy-sell agreement between buyer and seller whereby the buyer and the seller agree to conduct a sale and set the price, terms and conditions of the sale.

PURCHASE MONEY MORTGAGE

An installment sale method whereby the person receiving title to the property gives a note and a mortgage to the grantor (seller).

QUARTERLY INTEREST

Interest calculated on a loan every three months. For example if annual interest on an \$80,000 loan is 6%, then the annual interest due is \$4,800 and the quarterly interest is \$1,200.

QUIETING TITLE

Court action taken to establish ownership and / or remove a cloud from the title.

QUIT CLAIM DEED

A deed that conveys the grantor's interest in property without any warranties of title.

QUITE ENJOYMENT

The right of possession without outside interference.

RANGE

A strip of townships 6 miles wide running in a North to South direction.

RANGE LINES

Imaginary lines that run parallel to the meridian line in 6-mile intervals.

REAL ESTATE SETTLEMENT PROCEDURES

ACT (RESPA)

A federal law that requires certain procedures to be followed at closings (settlements) on first and second mortgage loans made on 1-4 family residences. Requires the lender to inform the buyers and sellers of their charges and credits related to the settlement. It prohibits kickbacks involving lenders, real estate's agents, title insurance services, appraisers, credit reports, inspections, surveys and legal services.

REAL PROPERTY

Real Estate. Includes land, improvements, perennial plantings, the air space above, subsurface rights, water related rights, anything attached permanently to the land. Seller may sell all rights or reserve a portion such as selling the surface but reserving mineral rights.

REALITY OF CONSENT

Parties enter a contract with free will, i.e. no fraud, duress, etc.

RECONCILIATION

The process of evaluating each appropriate appraisal method used in estimating value to arrive to a single and most supportable conclusion.

RECTANGULAR SURVEY SYSTEM

A method of legal description that employs the use of Base, Meridian, Township and Range lines.

REDEMPTION

The right of a property owner (mortgagor or vendee) to reclaim his/her property after losing it through court action.

REDLINING

An illegal act by a lender (or other service provider) who refuses to make loans on property located in a certain section of the city regardless of the qualifications of property or applicants, because of the residents' minority status.

REGRESSION

A larger and more expensive dwelling may lose value if it is located near smaller low-priced dwellings.

REGULATION Z

Truth-in-lending law. A federal law that requires credit institutions to inform the borrowers of the true cost of obtaining credit.

RELICTION

Land is exposed when water permanently recedes.

GLOSSARY

REMAINDER ESTATE

The interest of a remainder man who is entitled to receive property after death of a life tenant.

REMAINDERMAN

A third party (person or entity) named in a deed (other than the grantor or his / her heirs) to whom the property reverts after the termination of a life estate.

REPLACEMENT COST APPROACH (COST APPROACH)

A method of appraising property best used for brand new property or property with little or no comparables. It takes into consideration the cost of the land that the building is situated on, the cost of replacement of the building as new, minus the accrued depreciation.

REPRODUCTION COST

Is the cost to produce an exact duplicate of a building.

RESCISSION

To rescind (v).The termination of a valid contract and returning to "status quo."

RESTRICTIVE COVENANT (DEED RESTRICTION)

A restriction or clause in the deed that limits the future use of property being granted.

REVERSE MORTGAGE REVERSE ANNUITY MORTGAGE

A mortgage loan arrangement used by an elderly borrower who receives regular monthly payments from the lender (secured by property) for a set period of time allowing the balance and interest accrued to be repaid at the end of that period.

RIGHT OF RESCISSION

A borrower who refinances residential property (1 – 4 family dwelling) has three business days after the day he/she closes on the loan to cancel the loan without obligation and receive a refund of any loan fees that were paid.

RIGHT OF FIRST REFUSAL

A right given to a tenant or other individual to match a price offered by a third party for the purpose of leasing or purchasing property.

RIGHT OF SURVIVORSHIP

The right of a joint tenant or a tenant by the entireties to the deceased partner's share, conveyed to him / her automatically without the process of probate.

RIGHT OF WAY

A form of easement that allows a person to pass over the property of another.

RIPARIAN RIGHTS

An owner's right in land that borders or includes a stream, river, or inland lake. The rights include access to and use of the water.

SALES COMPARISON APPROACH

Also known as the "market data approach" or "market comparison approach". Appraisal method that employs information available on comparable sold properties with adjustments made for superior and/or inferior features.

SALE-LEASEBACK

The sale of property with the seller leasing back the same.

SANDWICH LEASE

A lease created as a result of a situation where the tenant subleases his / her property to other tenants.

SCARCITY

An economic characteristic of property affecting value which represents whether or not there are other similar properties of a comparable nature within the same general area that will compete with the subject property.

SECONDARY MORTGAGE MARKET

The market that provides money to purchase existing mortgages from primary lenders.

SECTION OF LAND

Area of land equal to one square mile or 640 acres.

SELLER'S AFFIDAVIT

A sworn statement required by the title insurance company to be signed by the seller at the time of closing affirming certain required information and declaring that he/she is not aware of any clouds that were not revealed during the title search.

SEMI ANNUAL INTEREST

Interest calculated on a loan every 6 months. For example, if annual interest on an \$80,000 loan is 6%, then the annual interest due is \$4,800 and the semiannual interest due is \$2,400.

SERVIENT ESTATE (TENEMENT)

The property that is subject to an appurtenant easement and encumbered by it.

SERVIENT TENANT

The owner of the servient estate who allows the dominant tenant to cross over his / her property.

SERVICE PROVISION AGREEMENT

An employment contract between the broker and a client such as a listing or a buyer agency agreement.

GLOSSARY

SETBACK ORDINANCE

Zoning law that requires a building to be erected at a certain distance from the property line.

SETTLEMENT

Closing the transaction.

SEVERALTY OWNERSHIP

Ownership of property by one person or single entity.

SEVERANCE

The act of detaching a fixture from real estate turning it once again to chattel.

SHERIFF'S DEED

A deed issued by a court officer (a sheriff) to convey title to property sold as a result of foreclosure action.

SPECIAL AGENT

One who is authorized to represent the principal in a specific matter, typically a real estate broker.

SPECIAL ASSESSMENT

An amount due to the local government for services provided to the property such as paving the street, installing utilities, etc.

SPECIAL WARRANTY DEED

A deed that limits the grantor's warranty of title to defects arising during his / her ownership of the property.

SPECIFIC PERFORMANCE

Legal action taken to obtain a court order directing the breaching party to perform under the terms of the contract as agreed.

STATUTE OF FRAUD

A law that requires certain contracts to be in writing in order to be enforceable in a court of law.

STATUTORY LIEN

A legal lien provided by an act of law such as for unpaid property tax or income tax.

SPECIFIC LIEN

Applies to a certain parcel that is the subject of a lien such as property tax liens, mortgage liens, special assessments. In contrast, a taxpayer may face a general (blanket) lien, which applies to a group of owned properties such as an income tax lien.

STATUTE OF LIMITATIONS

A law that sets a time limit for legal action to be brought in court to enforce a valid contract.

STEERING

Directing minority persons into or away from certain neighborhoods because of their minority status.

SUB-AGENT

An agent of an agent.

SUB-LEASE CLAUSE

A lease clause that addresses the sub-leasing of the property by the tenant (lessee) to another tenant (sub-lessee). It usually requires the pre-approval of the lessor.

SUBLEASING

A tenant (lessee) acts as a landlord and lease a portion or all of the property to another tenant (sub-lessee).

SUBORDINATION CLAUSE

A clause in an instrument (such as a mortgage or lease) that places the instrument in a secondary position to a subsequent instrument or lien.

SUBPOENA

A court order obtained in the process of investigating a licensee (with the help of the Department of Attorney General) ordering a person to appear for an investigation or to present certain records.

SUBROGATION CLAUSE

A clause in an insurance policy that allows the insurance company who pays a claim to seek reimbursement from the party who caused the loss.

SUBSTITUTION

A theory used to evaluate property that takes into consideration the cost of obtaining another comparable property.

SURRENDER OF LEASE

The cancellation of a lease by mutual, bilateral agreement between the landlord (lessor) and the tenant (lessee).

TAX SHELTER

A legal means by which an investor may reduce or defer payment of tax.

TENANCY (ESTATE) AT SUFFERANCE

The tenancy created when the tenant has gained possession to the property legally but has now lost the landlord's approval to stay.

TENANCY (ESTATE) AT WILL

A rental arrangement of an indefinite duration that entitles either landlord or tenant to terminate it with legal notice.

TENANCY (ESTATE) FOR YEARS

Tenancy of a known and set duration usually created with a lease contract.

GLOSSARY

TENANCY BY THE ENTIRETIES

Interest in real estate representing ownership of the entire property by each of the husband and wife with rights of survivorship.

TENANT

A person who occupies land as a freehold or non-freehold estate.

TENANTS IN COMMON

Property is owned by two or more individuals with equal or unequal interest, each owning a proportionate share with an undivided interest without the rights of survivorship.

TERM MORTGAGE (NON-AMORTIZED)

A relatively short-term loan that does not involve regular amortized payments.

TESTATE

To die with a will.

TESTATOR

A person who dies with a will.

THE BOARD

The Board of Real Estate Brokers and Salespersons, consists of nine voting members appointed by the governor, 6 of whom must have a license and 3 that represent the public. It's duties include the interpretation of licensing requirements, aiding the department in investigations, recommending the issuance and renewal of licenses, recommending approval for educational courses, setting and adjusting minimal standards of practice, and assessing penalties against licensees who violate the rules.

THE DEPARTMENT

The Department of Licensing & Regulatory Affairs. Headed by the director who is appointed by the governor. Only the Department can issue, renew, or revoke a license.

THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE, GNMA)

A government chartered secondary market that purchases loans made by primary lenders providing them with cash to continue their lending operations. It raises funding by selling pass-through certificates on Wall Street, which are security interests in mortgage pools.

THE SECURITY DEPOSIT ACT

The law that regulates the security deposit paid by a residential tenant. It limits the amount of the deposit to 1.5% of rent.

TIER

A strip of townships 6 miles wide running in an East – West direction.

TIME IS OF THE ESSENCE

A clause in a contract used to emphasize that the expressed time limits are not flexible and that the parties

named in a contract must act on or before a definite deadline.

TIME SHARE OWNERSHIP

Multiple purchasers buy interests in the same parcel, each of whom own a different time interval. For example one owner could own the first week of a month while another owner owns the second week of the same month.

TITLE

A group of elements that proves ownership in property.

TITLE INSURANCE

Insurance against losses resulting from a defective title.

TITLE THEORY STATES

States whose law allows a lender to receive title not a lien on the mortgaged properties.

TORRENS LAND TITLE

A system of title registration organized by some states to verify that title is vested in a certain person or entity.

TOWNSHIP

A parcel of land measuring 6 miles by 6 miles in size resulting from the intersection of Range and Township lines.

TOWNSHIP LINES

Imaginary lines running 6 miles apart parallel to the Base line.

TRADE FIXTURES

Personal property used in trade or business such as freezers, coolers, shelves, cash registers, etc.

TRANSFERABILITY

An economic characteristic of real estate referring to the ease of transferring ownership from the seller to the buyer.

TRANSFER TAX

Paid upon the recording of a deed to the local government and / or state.

TRID

Integrated Disclosure Rule that requires disclosures upon loan application and before loan settlement.

TRUST ACCOUNT (ESCROW ACCOUNT)

A non-interest bearing demand account placed with a financial institution used to keep monies received by the broker belonging to others until the consummation or termination of the transaction. If the broker also conducts property management operations, then two trust accounts must be

GLOSSARY

maintained. One for tenants deposits and rents and the other for the purchase and sale of property.

TRUSTEE

- (1) A neutral party who holds title to property to secure payment of an installment loan under a "deed of trust" arrangement.
- (2) A person or entity that is in charge of property held by a trust.
- (3) A court appointed person that handles property in bankruptcy.

UNDUE INFLUENCE

A situation created when in a close and confidential relationship one party has taken advantage of another to influence him / her to such a degree that freely given consent and understanding has been seriously impaired.

UNENFORCEABLE CONTRACT

A contract that would not be enforced by a court of law such as a contract that does not meet the statute of frauds or the statute of limitations.

UNILATERAL CONTRACT

A contract that contains a promise in exchange for an act.

UNITY OF INTEREST

The equal interest that is shared by two or more owners of property.

UNITY OF POSSESSION

The equal and undivided possession shared by two or more owners of property that entitles them to its full use and enjoyment.

UNITY OF TIME

Refers to the fact that two or more owners of property must take title at the same time.

UNITY OF TITLE

Two or more owners of property must take title through the same deed or will.

UNMARKETABLE TITLE

Clouded title that has certain defects that must be cleared. It may be as simple as an unpaid property tax bill, or it could be as serious as a deed that is missing the signature of one of the owners.

UTILITY

An economic characteristic of value representing the type of use that the subject property is most suitable for and whether or not it satisfies the need of buyers.

VA MORTGAGES

A mortgage loan issued to a veteran, which is guaranteed by the veteran's administration. It requires no down payment.

VALID CONTRACT

A legally binding contract that contains all necessary contractual elements.

VALUABLE CONSIDERATION

Something of value such as money, property or a mere promise that is exchanged in a contract to receive other goods or services. Necessary to validate the contract.

VALUATION

The act of estimating value of property.

VENDEE

An installment purchaser of property on a land contract agreement.

VENDOR

The seller of property under a land contract arrangement who is entitled to receive payments and is the holder of "Naked Title".

VETERAN'S ADMINISTRATION GUARANTEED FINANCING (VA)

A loan that is initiated to individuals who have served in the military forces. It requires no down payment and is guaranteed by the Veteran's Administration.

VOID

Not binding or unenforceable.

VOIDABLE CONTRACT

A contract that may be enforced or voided by a party to the transaction who is "legally injured."

WARRANTY DEED

A deed whereby the grantor covenants (promises) to the grantee protection against any future claims of title by a third party.

WRIT OF ATTACHMENT

Obtained to stop an owner from disposing of property until a lawsuit that affects the marketability of the property has been decided.

WRIT OF RESTITUTION

A court order authorizing a sheriff to evict occupants after the sale of property in a sheriff's sale and the expiration of the redemption period.

ZONING

Regulating the use of property by the local government to insure proper development of the community.

ZONING VARIANCE

Zoning permission allowing the introduction of a non-conforming use.

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MULTIPLE CHOICE - PROPERTY OWNERSHIP

MULTIPLE CHOICE QUESTIONS, PROPERTY OWNERSHIP

1. John who owns his farm as a tenant by the entirety wishes to sell 2 acres out of his 5000 acre farm. What must he be concerned with?
 - A. His heirs approval
 - B. His spouse's approval
 - C. His tenants occupancy rights
 - D. Government rights
2. John received a 90 day permission to cross his neighbor's property with his vehicle, what type of arrangement did he have with his neighbor?
 - A. An easement
 - B. An encroachment .
 - C. A license
 - D. An appurtenance
3. Sharon owns several investment properties. Every once in a while she falls behind on her bills and a lien is placed against the properties. Which of the following liens would most likely be a general (blanket) lien?
 - A. Property tax lien
 - B. Construction lien
 - C. Special assessments lien
 - D. Income tax lien
4. Which of the following involves obtaining a court order allowing access for property that is landlocked?
 - A. A granted easement
 - B. An easement by reservation
 - C. An easement by necessity
 - D. A gross easement
5. Seller wishes to take the roses from a perennial rose bush with him upon selling the house. What should the agent advise the seller to do?
 - A. Nothing, roses continue to grow every year and therefore are personal property which is not included in the sale unless the buyer specifically ask for it
 - B. The seller should exclude the roses in the purchase agreement
 - C. The seller can remove the roses but only at the end of the season
 - D. Any plants on the property must stay and be included in the sale
6. Sue, John, Bill and Kimberly received a deed that is made to all of them as tenants in common. If the deed does not mention their ownership interest, what shares would be allocated to them?
 - A. Equal shares because they must have the unity of interest
 - B. Equal shares because the deed does not specify that one of them would receive a larger interest than the other
 - C. Unequal shares and the deed must be corrected because tenants in common may or may not have equal shares
 - D. Unequal shares, because each one of the ladies will only receive 100% entireties.
7. A method of legally describing land that involves baselines and range lines is the:
 - A. Informal reference system
 - B. Lot subdivision method
 - C. Metes-and-bounds
 - D. Rectangular survey system
8. An area of land that is one mile by one mile square is called:
 - A. A township
 - B. A section
 - C. An acre
 - D. A check
9. An owner of property whose property is located next to a small body of water or a stream has:
 - A. Littoral rights
 - B. Erosion rights
 - C. Encroachment rights
 - D. Riparian rights
10. Regarding condominiums, which of the following is not true?
 - A. Common elements are owned by all co-owners.
 - B. Association fees are paid to the condominium association to maintain common elements and insure them.
 - C. If a co-owner does not use a common element such as a swimming pool, then she does not have to pay her share of the association dues.
 - D. All co-owners have to honor the bylaws.
11. All the following is true about joint tenants except:
 - A. They have the right of survivorship.
 - B. They must inherit or purchase property at the same time.
 - C. Ownership is received with the same deed or will.
 - D. They may own property in equal or unequal shares.
12. A permanent right to use someone else's property for a purpose is known as:
 - A. A license
 - B. Encumbrance
 - C. An easement
 - D. Public right

MULTIPLE CHOICE - PROPERTY OWNERSHIP

13. In addition to the meridian, the base line intersects with which of the following?
- A. Section lines
 - B. Tier lines
 - C. Range lines
 - D. Correction lines
14. A life tenant can do all but which of the following?
- A. Devise (will)
 - B. Lease
 - C. Mortgage
 - D. Sell
15. The following owners do not have the right of survivorship:
- A. Tenants in common.
 - B. Tenants at will.
 - C. Joint tenants.
 - D. Tenants by the entireties.
16. When an estate is held by husband and wife, it is usually known as:
- A. Martial estate
 - B. Marriage in severalty estate
 - C. A joint estate
 - D. Tenancy by the entireties
17. When a person owns property alone, he/she is known as:
- A. Lonely tenant
 - B. Single tenant
 - C. Severalty tenant
 - D. Uncommon tenant
18. When two or more individuals own property without rights of survivorship and in unequal portions, they probably own it as:
- A. Tenants by the entireties
 - B. Joint tenants
 - C. Tenants in common
 - D. Legal tenants
19. John deeds property to Sharon for her life time, stipulating that the property reverts to him after her death. Sharon sells the property to Bill. Which of the following is true?:
- A. If Bill dies, property reverts to John
 - B. If Sharon dies, property reverts to John
 - C. If John dies, Bill owns the property in fee simple
 - D. Sharon may not sell the property
20. When verifying a legal description that provides direction to a survey, a monument is used to set which of the following?
- A. Total gross area
 - B. Building size
 - C. Boundary
 - D. Elevation
21. A broker is concerned about a trespass over a property. How should he help the owner verify such an encroachment?
- A. Contact the local planning commission
 - B. Contact the local zoning board
 - C. Contact an appraiser
 - D. Contact a surveyor
22. An easement by prescription is obtained by:
- A. Forcing the owner over which the easement is given to give the right of way with a court order because the person seeking the easement is land-locked.
 - B. A grant from a property owner to benefit the neighboring property.
 - C. Trespassing for the statutory period of time.
 - D. Condemnation powers of the government.
23. Which of the following is true regarding easements?
- A. The owner of the servient estate must allow the dominant tenant to use any portion of the servient estate.
 - B. The concept of servient and dominant tenants is found in the gross easement.
 - C. When the servient and the dominant properties are merged, the easement appurtenant is extinguished.
 - D. The dominant tenant owns the servient property.
24. All of the following are true about easements except:
- A. The party wall is an example of an appurtenant easement and it is located on the property line of two adjacent properties.
 - B. A party driveway is an easement appurtenant.
 - C. A gross easement is given to the neighboring property so it will not be land-locked.
 - D. If an individual purchases property subject to an easement, she must honor the easement.
25. A right, privilege or improvement that passes along with the property is/are:
- A. An emblement.
 - B. An encroachment.
 - C. An appurtenance.
 - D. Government rights.

MULTIPLE CHOICE - PROPERTY OWNERSHIP

26. Sarah and Jason are joint tenants. All of the following are true about their ownership except:
- A. If Sarah dies, her share goes to Jason.
 - B. If Jason dies his share transfers to his estate.
 - C. Sarah and Jason must have equal interest.
 - D. Sarah and Jason could have either purchased or inherited the property as joint tenants.
27. Chuck and Sharon are tenants in common. All of the following are true about their ownership except:
- A. They may own property in equal or unequal shares.
 - B. They may have received the property through a deed or will.
 - C. Either one of them could sell his/her share without approval of the other.
 - D. When Sharon dies, her share goes to Chuck.
28. The concept of "air space" is found in the following type of ownership:
- A. Cooperatives
 - B. Joint tenancy
 - C. Condominiums
 - D. Common element ownership
29. In a condominium complex, all of the following are considered common elements except:
- A. The pool
 - B. The structural portions of the unit
 - C. The parking lot and the yard
 - D. Furniture
30. A condominium owner wants to make changes to the exterior of his unit. He must:
- A. Be sure that quality of construction is up to city code
 - B. Be sure that colors used match the rest of the units and are in harmony
 - C. Make sure that the association approves the changes after construction is completed
 - D. Receive approval of the association prior to any changes being made
31. Regarding condominium association fees:
- A. They may or may not be paid by each co-owner depending on whether they use the common elements.
 - B. They include all property taxes but not mortgage payments for the owners.
 - C. They are used to maintain and insure the common elements.
 - D. They are tax deductible for the homeowner.
32. A concept of ownership reflected in leasing units after purchasing stock in a corporation that owns a multi-unit complex is known as:
- A. Condominiums
 - B. Shared ownership
 - C. Cooperatives
 - D. Real estate stock ownership
33. One of the advantages of condominium ownership over a cooperative is:
- A. It is cheaper to acquire.
 - B. It is usually located in better locations.
 - C. It is real estate ownership in fee simple.
 - D. It involves stock ownership, which is more attractive.
34. How many acres are there in the north half of the southeast quarter of the southwest quarter of a section?
- A. 20 acres
 - B. 32 acres
 - C. 8 acres
 - D. 64 acres
35. An imaginary line running north-south that intersects with the baseline is:
- A. The meridian line
 - B. The township line
 - C. The section line
 - D. The check line
36. A method of legally describing land that uses monuments and point of beginning is the:
- A. Rectangular survey system
 - B. Lot subdivision system
 - C. Metes-and-bounds
 - D. Monument system
37. Imaginary lines running six miles apart parallel to the baseline are called:
- A. Range lines
 - B. Meridian lines
 - C. Township lines
 - D. Tier lines
38. A buyer interested in purchasing a house noticed a chandelier hanging from the living room ceiling that he really liked and wrote a purchase agreement without specifically including it. After closing, he noticed that the seller removed that chandelier. Which of the following is true?
- A. The buyer has no right to the chandelier unless he would have included it specifically in the purchase agreement.
 - B. The seller had the right to remove the chandelier because it is normally chattel and must be purchased separately.
 - C. The chandelier was a part of the real estate because it was permanently attached as a fixture and the seller had no right to remove it.

MULTIPLE CHOICE - PROPERTY OWNERSHIP

- D. The chandelier would have been included in the sale only if it was easily removable and not permanently attached.
39. David gave a house to his mother as a life estate stipulating that after her death, property shall revert to David or his heirs; but upon the mother's death, a will was discovered directing the property to be given to charity. Which of the following is true?
- A. The charity has the right to claim the property in probate court.
 - B. The mother had the right to will the property as a fee simple owner to anyone she wanted.
 - C. The mother's will have no legal effect unless it was recorded.
 - D. Regardless of the will, property will revert to David or his heirs.
40. All of the following are true regarding condominium ownership except:
- A. It involves ownership of stock in a corporation
 - B. It involves payment of association fees
 - C. It involves abiding by bylaws
 - D. It involves common elements
41. Which of the following items could never constitute a fixture?
- A tree
 - A bookshelf
 - A pool
 - Land

MULTIPLE CHOICE - LAND USE CONTROLS

MULTIPLE CHOICE QUESTIONS, LAND USE CONTROLS

- Property assessed value is \$36,725, and the tax rate is 37 mills. What is the amount of tax due to the city?
 - \$1,250
 - \$1,359
 - \$2,718
 - \$5,435
- The street in your neighborhood has been paved by the city. How will that affect your tax bill?
 - Millage rate will increase.
 - Assessed value will decrease.
 - You may receive a bill for special assessments
 - Your property tax will be lowered.
- John purchases property zoned for multiple units and plans to build an apartment complex on it but discovers a deed restriction that limits the use to single family only. You should tell John that:
 - The deed restriction has no power against a zoning ordinance.
 - Based on the restriction, he could build single-family homes or apartments as he wishes.
 - The deed restriction will supersede the zoning ordinance because it is more restrictive.
 - The zoning ordinance must be honored because government's rights are superior to private rights.
- A clause in the law that allows an individual to continue a non-conforming use after a zoning law has changed, is called:
 - A zoning ordinance.
 - A deed restriction.
 - A restrictive covenant.
 - A grandfather clause.
- When the use of property does not match the zoning allowed, the situation is best referred to as:
 - A grandfather clause.
 - A zoning variance.
 - Illegal
 - Non-conforming use
- A developer who wants to build houses in a subdivision with a 20-foot setback instead of the 30 feet allowed under the ordinance must obtain a:
 - Setback use
 - Special ordinance ruling
 - Variance
 - Permit restriction
- When the deed limits the use of the property, this is known as:
 - Deed zoning
 - Deed variance
 - Restrictive covenant (deed restriction)
 - Owner's restriction
- Sharon wants to build a department store on land zoned residential single family. She must apply for and receive:
 - A zoning variance
 - A deed covenant
 - Code permission
 - Grandfather variance
- A law that establishes the minimum distance between the lot line and where the improvements can be erected is known as the:
 - Frontage distance
 - Setback ordinance
 - Bulk zoning distance
 - Building distance
- When zoning law allows a certain use but deed restriction limits that same use, the one that would prevail is the:
 - Zoning law
 - Deed restriction
 - Building permit
 - Setback authority
- Zoning law addresses all of the following except:
 - Use of property
 - Setback line
 - Grandfather clause
 - Restrictive covenants
- The right of the government to make laws for the health, safety and welfare of the public is known as:
 - Eminent domain

MULTIPLE CHOICE - LAND USE CONTROLS

- B. Condemnation
C. Taxation
D. Police power
13. Placing a park between an industrial area and a single family subdivision is an example of:
A. Buffer Zone
B. Grandfather Clause
C. Zoning Variance
D. Restriction exemption
14. A study that results from examining the factors which a land development or construction project would have on the environment is known as:
A. A phase I environmental audit
B. An environmental impact report
C. A construction development study
D. A mitigation study
15. A buyer who discovers contamination with property before the closing may do all of the following except:
A. Request that the seller conducts a cleanup of the contamination
B. Offer to buy the property at a lower price
C. Withdraw from the sale
D. Force the seller to perform a complete cleanup of the toxic waste
16. An owner is faced with a zoning change requiring residential developments only in the area where his gas station is located, what are his choices?
A. Apply for a variance
B. Change the use to residential in order to comply with the current zoning law
C. Continue to operate without interruption
D. According to law, the owner is given one year to sell the station provided that the zoning change is disclosed
17. A national chain plans to build a pharmacy on land that used to have a gas station, what would the chain or its lender require?
A. An environmental impact report
B. A phase I environmental audit
C. Proof that the gas station operation has ceased at least 10 years ago
D. A zoning variance
18. The right of the government to take private property for public use is known as:
A. Eminent Domain
B. Zoning
C. Police Power
D. Escheat
19. The right of the government to make laws for the use of land such as zoning, building codes, environmental protection laws, etc. is known as:
A. Police Power
B. Eminent Domain
C. Escheat
D. Government Bylaws
20. John died leaving no will or heirs. What happens to his property?
A. It passes to his wife and kids
B. It passes to any surviving partners
C. It passes to the state
D. It passes to probate
21. A target home is a home that was built before 1978 and may contain
A. Asbestos
B. Lead paint
C. Mold
D. Radon
22. A licensee is selling a home that is built before 1978. What should she be concerned with or do?
A. Recommend an asbestos inspection
B. Recommend radon inspection
C. Provide a lead paint educational pamphlet and give the buyer 10 days to do his due diligence
D. Mold infestation
23. A colorless odorless radioactive gas that is known to travel inside the ground and penetrate building material in the home and cause health problems is known as:
A. Radon
B. Carbon monoxide
C. Sewer gas
D. Oxygen
24. All of the following have a duty to disclose known environmental hazards such as lead paint, radon and asbestos except:
A. The seller
B. The landlord

MULTIPLE CHOICE - LAND USE CONTROLS

- C. The buyer
D. The agent
25. Lead would be least likely found in:
A. Pipes
B. Soil
C. Paint
D. Insulation
26. What was the primary reason asbestos was used in buildings?
A. Excellent strength quality when mixed with drywall
B. Excellent insulation qualities
C. It creates high quality paint
D. It was added mostly to siding to make it water proof
27. Private Control on Land Includes:
A. Deed restrictions
B. Grandfather clauses
C. Court injunctions
D. Government Condemnation
28. All of the following are true regarding lead paint abatement except:
A. It should be carefully done by the owner using the proper respirator
B. It includes paint removal from the interior and exterior of the home
C. It may require replacement of a layer of earth surrounding the home
D. It can be costly and is usually paid for by the seller
29. A tool and die shop is located inside a residential neighborhood since the 1950s. Presently, and due to various ordinances, the shop does not comply with zoning but the local government has allowed it to remain in business. This situation is known as:
A. A grandfather/nonconforming use
B. A zoning variance
C. A special use permit
D. A buffer zone
30. Charges assessed for improvements provided by the local government that benefit the property
A. Property improvement assessments
B. Millage assessments
C. Special assessments
D. Community beautification assessments
31. Vacant property is listed for sale near the Grand River that has had a history of overflowing its banks since 1904. What would you recommend to a potential buyer?
A. Get a home warranty
B. Get a title insurance policy without exceptions
C. Check the public records such as DEQ flood maps and take into consideration the possibility of requiring flood insurance
D. Make sure that the house is built without a walk out basement
32. Licensee lists a struggling but operating grocery store located in a residential neighborhood. The sale is taking too long because the business is not generating good revenue. The seller decides to close down the business without canceling the listing because the building has value. A buyer expresses interest in buying the building and re-establishing it as a grocery store. What should the agent tell the buyer?
A. The new grocery store is automatically grandfathered
B. Check with the local government to see if the new buyer's operation may continue as a nonconforming use
C. Apply for a variance
D. Prepare an environmental impact report and submit it to the local government
33. 64. Which of the following situations results in escheat?
A. The city has a public project and must take private property that belonged to a deceased
B. A person dies leaving his entire property to a charity while disinheriting his own spouse
C. A person dying with no heirs or will
D. A person dying leaving her share to a surviving partner

MULTIPLE CHOICE - VALUATION AND MARKET ANALYSIS

MULTIPLE CHOICE QUESTIONS, VALUATION & MARKET ANALYSIS

1. An apartment building grosses \$2,000 per month with expenses averaging 35% of gross income. What is the net operating income (NOI) for the project?
 - A. \$1,300
 - B. \$24,000
 - C. \$15,600
 - D. \$8,400
2. Of the different methods of appraising property, which of the following is the most appropriate for appraising vacant land?
 - A. The cost approach
 - B. The gross rent multiplier approach
 - C. The capitalization approach
 - D. Market data (comparison) approach
3. When using the market/sales comparison approach, an appraiser takes the following into consideration:
 - A. Income and expenses of property
 - B. Capitalization expected by investors
 - C. Features that the property has in comparison to other property sold in the neighborhood
 - D. Depreciation on improvements
4. Property value is least affected by:
 - A. Supply and demand
 - B. Quality and features
 - C. Activity of buyers in an area
 - D. The owner's acquisition cost
5. Which of the following indicates functional obsolescence?
 - A. Leak in the roof
 - B. Sewage treatment plant next to the property
 - C. One-car garage in a neighborhood of mostly two-car garages
 - D. High property taxes
6. When a house is located in a neighborhood with several boarded-up houses and gangs on the street, this property loses value due to:
 - A. Physical deterioration
 - B. Functional obsolescence
 - C. Economic obsolescence
 - D. Crime effect on occupants
7. When appraising a brand new house surrounded by older houses, the best method used is the:
 - A. Income approach
 - B. Market comparison approach
 - C. Actual cash paid to the builder to erect improvements
 - D. Cost approach
8. Which of the following is true about income property evaluation?
 - A. The cost of land must be estimated separately and then the cost of improvements must be added to it.
 - B. Appraiser must look at acquisition cost when property was purchased.
 - C. The capitalization approach is the most suitable.
 - D. Expenses such as property taxes, maintenance and insurance are seldom taken into consideration.
9. All of the following are taken into consideration when using the market comparison approach except:
 - A. The price of the sold comparables in the neighborhood.
 - B. The subject property features such as square footage, number of bathrooms, garage, central air conditioning, etc.
 - C. Property location and age in comparison to the sold comparables.
 - D. The capitalization rate an investor would reasonably accept.
10. The price that a willing buyer will most probably pay a willing seller under no pressure, and provided that property is available on the market for a reasonable length of time, is known as:
 - A. Market price.
 - B. Economic price.
 - C. Market value.
 - D. The buyer's value.
11. A factor which an appraiser multiplies gross income from property by to appraise its value is:
 - A. Capitalization factor
 - B. Rental factor
 - C. Expense factor
 - D. Gross rent multiplier

MULTIPLE CHOICE - VALUATION AND MARKET ANALYSIS

12. In estimating the square footage of a building for replacement purposes, an appraiser would use:
- A. Interior dimensions of the structure.
 - B. Lot size dimensions.
 - C. Exterior dimensions.
 - D. Lot frontage dimensions.
13. To determine the value of a church, the appraiser will probably use:
- A. The income capitalization approach.
 - B. The cost approach.
 - C. The market data approach.
 - D. The congregation approach.
14. A 10,000 sq. ft. mansion surrounded by 1,500 sq. ft. homes would most likely be appraised using:
- A. Market comparison approach
 - B. The square foot approach
 - C. The cost approach
 - D. The gross living area approach
15. A small rental property sold for \$60,000 and it had annual gross income of \$10,000. Using the gross rent multiplier what would another property located in the same neighborhood be valued at if it had a monthly gross income of \$1,500?
- A. \$90,000
 - B. \$108,000
 - C. \$ 120,000
 - D. \$9,000
16. What would income property be valued at if it had \$50,000 annual gross income with 40% expense ratio and the agent uses 10% capitalization rate?
- A. \$300,000
 - B. \$200,000
 - C. \$250,000
 - D. \$500,000
17. When comparing an appraisal report to a comparative market analysis, which of the following is NOT a factor to consider?
- A. An institutional lender will not rely on the market analysis to grant a loan
 - B. An appraisal is provided by a state licensed appraiser while the market analysis is provided by a broker.
 - C. An appraisal is a determination of value while the market analysis is a recommendation of listing price
 - D. An appraisal report is usually more detailed and must follow USPAP
18. The price received for sold property is
- A. Market price
 - B. Market value
 - C. Arm's length transaction
 - D. Appraised price
19. When using the cost approach, an appraiser will consider all of the following factors except:
- A. Economic life
 - B. Deferred maintenance
 - C. Accrued depreciation
 - D. NOI
20. All of the following are considered principles of value except:
- A. Conformity
 - B. Substitution
 - C. Contribution
 - D. Acquisition cost
21. When a sale occurs in a competitive market and under no duress, this transaction is known as:
- A. Fair market value transaction
 - B. Arm's length transaction
 - C. Highest and best value
 - D. Full anticipation transaction
22. Which of the following would have the least effect on property value?
- A. Interest rates
 - B. Economic growth
 - C. Brokers' commissions
 - D. Loan availability
23. Which of the following would be the least likely to be curable?
- A. Economic obsolescence
 - B. Physical deterioration
 - C. Functional obsolescence
 - D. Destruction of property
24. Replacement cost may be used to estimate the value of a variety of properties but it is especially utilized in the appraisal of
- A. A new strip center
 - B. A historic building
 - C. A new home located in an old neighborhood
 - D. Vacant land
25. ~~TO REMOVE THIS PAGE FROM THE EXAM, PLEASE CONTACT THE NATIONAL BOARD OF APPRAISERS OF REAL ESTATE AT 1-800-541-7973~~

MULTIPLE CHOICE - VALUATION AND MARKET ANALYSIS



26. Julie is thinking of buying a nicely remodeled, large home located in a neighborhood of small, simple and older homes. Which of the following is true regarding principles of value?
- A. The principle of conformity plays a large role in this case because of the way the house is situated
 - B. The principle of contribution is considered because any improvements done to the property would result an equal increase in value
 - C. Substitution comes into play because a buyer will have difficulty finding a replacement for this house in this neighborhood
 - D. Based on the principle of regression, the house may lose value
27. An owner of property discovers damage done to asbestos insulation that is wrapped around an old boiler in his home. All of the following is true except?
- A. A total abatement of asbestos must be conducted for the entire home
 - B. An expert should be consulted to evaluate the extent of the damage, and the meantime the homeowner should not leave the damaged portion exposed and possibly apply duct tape to it
 - C. Depending on the situation, encapsulation may be recommended instead of total removal
 - D. Family members should avoid in the area until assured that the damaged asbestos is dealt with
28. Property benefits from its good location. Which characteristic adds to its value?
- A. Durability
 - B. Heterogeneity
 - C. Scarcity
 - D. Immobility
29. Which of the following is not an economic characteristic of real estate?
- A. Utility
 - B. Transferability
 - C. Durability
 - D. Desirability
30. The fact that most of the subdivision lots have been sold and buyers are competing for the last ones that are left is due to:
- A. Desirability
 - B. Scarcity
 - C. Utility
 - D. Heterogeneity

MULTIPLE CHOICE - FINANCING

MULTIPLE CHOICE, FINANCING

1. All of the following are true regarding a Veteran's Administration Loan except:
 - A. The loan is guaranteed by the Veteran's Administration.
 - B. Any credit worthy individual including non-veterans can assume the loan.
 - C. The Administration obtains a certificate of reasonable value and requires the house to be brought up to code.
 - D. The veteran must put down at least 3% down payment.
2. All of the following are examples of primary lenders except:
 - A. Savings and loans
 - B. Credit unions
 - C. Commercial banks
 - D. GNMA
3. All of the following are true regarding government related loans except:
 - A. An FHA loan is insured by the Federal Housing Administration.
 - B. A VA loan is guaranteed by the Veteran's Administration.
 - C. An FHA loan may be granted to an investor interested in fixing and selling property.
 - D. A VA loan may be granted to an investor who intends to rent the entire property.
4. A type of mortgage suitable for those thinking of semi-retirement that involves receiving regular monthly payments for a specified period is known as:
 - A. Retirement mortgage
 - B. Graduated mortgage
 - C. Amortized mortgage
 - D. Reverse mortgage
5. When financing property on a deed of trust, a third-party trustee typically holds the title to the property in trust, with the power to foreclose on the buyer if there is a default. Once the debt is satisfied, what type of deed is issued?
 - A. The financing deed
 - B. Executor's deed
 - C. Deed of re-conveyance
 - D. The mortgage deed
6. Regarding a VA loan, all of the following are true except:
 - A. Applicant must be entitled to receive VA loan.
 - B. Applicant must intend to live in the house.
 - C. Property must not be larger than four units.
 - D. Applicant must be willing to pay an insurance premium.
7. An individual may qualify for an FHA loan. Where would you refer him?
 - A. To the Department of Housing and Urban Development
 - B. To the Federal Housing Administration
 - C. To any participating primary lender
 - D. To the Federal Home Loan Mortgage Corporation
8. A relatively short-term loan that involves regular monthly payments and a lump sum due at the end of the loan term is:
 - A. A reverse mortgage.
 - B. Partially amortized loan
 - C. A subprime loan.
 - D. Adjustable rate loan.
9. A relatively short-term loan that may require interest to be paid periodically and the total sum of principal to be paid at the end of the loan term is:
 - A. Balloon mortgage.
 - B. Term/straight loan.
 - C. Fixed rate mortgage.
 - D. Unconventional mortgage.
10. A land contract gives the buyer all of the following except:
 - A. The right to live on the property.
 - B. The right to lease out the property.
 - C. The right to sell the property.
 - D. Legal title to the property.
11. When the loan payments remain the same, leaving a lump sum due at the end of the loan term, this lump sum payment is called:
 - A. An acceleration payment.
 - B. A lump sum payment.
 - C. A balloon payment.
 - D. A loan-end payment.

MULTIPLE CHOICE - FINANCING

12. Helen bought a \$185,000 home and financed it 100% through the local bank. Chances are she obtained:
- A. An FHA loan.
 - B. A conventional loan.
 - C. A balloon mortgage loan.
 - D. A VA loan.
13. Upon the sale of property, title remains with the seller and will not be transferred until the buyer makes the final payment on the balance. This is known as:
- A. FHA financing.
 - B. A zero down-payment loan.
 - C. A land contract.
 - D. A lease with option.
14. A lender questions a couple's mortgage application asking if they were planning to marry and have several children because their income is barely enough to support the mortgage payments. This behavior by the lender
- A. Violates the civil rights act of 1866
 - B. Is legal as long as it helps the buyer qualify for a loan
 - C. Violates the equal credit opportunity act
 - D. Violates TRID requirements
15. At closing, the lender pressures a borrower to close the transaction despite the fact that he's being quoted 2 point higher than the loan estimate. This behavior by the lender
- A. Violates equal credit opportunity act
 - B. Violates the fair housing act
 - C. Is a predatory lending practice
 - D. Violates the mortgage fraud act
16. Which of the following will trigger a new loan estimate and closing delay?
- A. A sudden increase in the mortgage interest rates
 - B. Lender misquoted the amount of points on the TRID
 - C. Borrower cannot qualify for a 15 year loan and must switch to 30 year
 - D. Lender fails to provide a closing disclosure 3 business days before consummation of loan
17. Another name for a land contract is
- A. Installment sale contract/contract for deed
 - B. Seller financing contract
 - C. Seller mortgage contract
 - D. Seller-Buyer contract
18. All of the following are considered to be a nonconforming loan except:
- A. Jumbo home loans
 - B. Portfolio loans
 - C. FHA loans
 - D. Hard money loans
19. Seller sold property on the installment plan and promised to convey title to the buyer when the balance is finally paid off. This arrangement is best described as a:
- A. Home financing
 - B. Land contract /contract for deed
 - C. Purchase money mortgage
 - D. Loan transfer mortgage
20. The right of a person to reclaim his property after a foreclosure sale is the right of:
- A. Rescission
 - B. Acceleration
 - C. Redemption
 - D. Alienation.
21. A lender agrees to settle a mortgage loan at less than the loan balance, this is known as
- A. Short sale
 - B. Liquidation sale
 - C. REO sale
 - D. Deficiency sale
22. The mortgagor decides to peacefully surrender property to the mortgagee. This is referred to as:
- A. Friendly foreclosure.
 - B. Sale lease back.
 - C. Bank purchase of property.
 - D. A "deed in lieu of foreclosure".
23. If the borrower is making regular equal monthly payments, which is true about principal and interest portions of his payment?
- A. They remain the same.
 - B. The principal portion is increased while the interest portion is decreased.

MULTIPLE CHOICE - FINANCING

- C. The interest portion is increased while the principal portion is decreased.
D. The loan balance is increased.
24. The purpose of the truth-in-lending law is to:
- A. Limit the amount of interest charged to the buyer.
 - B. Limit the amount of closing cost.
 - C. Enable borrowers to easily shop around for interest rates.
 - D. Stop usury.
25. The truth-in-lending law permits the advertising of the following without making any further disclosure:
- A. \$2,000 down payment.
 - B. 10% interest.
 - C. \$625 per month payment.
 - D. Reasonable monthly terms.
26. Which of the following is not included in the APR?
- A. Legal fees.
 - B. Prepayment penalties.
 - C. Non-refundable application fee.
 - D. Interest per annum.
27. All of the following may be considered as practice of Predatory lending except
- A. Tricking a borrower into believing that an interest rate is lower than it actually is.
 - B. Leading the borrower to believe that he has the ability to pay a greater payment than he can actually afford.
 - C. Excessive loan fees
 - D. Requiring the borrower to attempt credit repair in order to raise credit score
28. When financing a home through VA, the points are based on:
- A. The purchase price
 - B. The loan amount
 - C. The CRV
 - D. The accelerated amount
29. A mortgage clause that calls the entire loan balance due upon default is:
- A. The escalation clause
 - B. The acceleration clause
 - C. The amortization clause
 - D. The prepayment clause
30. When mortgage loan is satisfied, the lender will issue and record:
- A. A discharge
 - B. A letter of intent
 - C. An estoppel certificate
 - D. An indemnification letter
31. The prepayment penalty on a \$50,000 mortgage is paid on the original balance as follows: First year penalty is 3.5%, second year is 2.25%, third year is 1%. If the loan was paid off during the second year, calculate the penalty.
- A. \$1,125
 - B. \$1,750
 - C. \$3,375
 - D. \$500
32. The purpose of the truth-in-lending act is to:
- A. Save the public money on buying homes.
 - B. Establish and regulate closing charges.
 - C. Disclose to the consumer the true cost of obtaining credit.
 - D. Help the government close down violating lenders.
33. When a foreclosure sale does not bring enough to satisfy the loan balance, the lender may:
- A. Cancel the sale.
 - B. Make a counteroffer to the highest bidder.
 - C. Sue the mortgagor for a "deficiency judgment".
 - D. Do nothing and accept the highest bid.
34. A clause that requires the full loan balance to become due to the creditor if property is disposed of is:
- A. Acceleration clause
 - B. Due on sale/alienation clause
 - C. Escalation clause
 - D. Partial payment clause.
35. The following is true about foreclosure sales:
- A. If more than the amount owed to the lender is bid, the extra money is considered a profit to the lender.
 - B. The mortgage is paid first and then the unpaid property taxes are paid.

MULTIPLE CHOICE - FINANCING

- C. If foreclosure sale did not bring enough to satisfy the loan, the bank must collect the difference from insurance.
- D. If two mortgages existed on the property, the senior will be paid first and then the junior.
36. Which of the following is true regarding mortgage assignment?
- A. They are illegal.
 - B. They are not allowed by law for conventional loans but they are permissible for government loans.
 - C. A prepayment penalty will be due upon assignment.
 - D. A formal assumption involves approval of the new purchaser by the lender.
37. Interest charged on typical seller financing / Land Contract financing is limited to:
- A. 7%
 - B. 11%
 - C. 14%
 - D. 24.9%
38. Michigan criminal usury ceiling is set at:
- A. 25%
 - B. 11%
 - C. 7%
 - D. 15%
39. The difference between property fair market value and the amount owed on it is the:
- A. Mortgagor's equity.
 - B. Statutory equity.
 - C. Mortgagee's equity.
 - D. Fair market equity.
40. A person's right to reclaim property after foreclosure is called the:
- A. The statutory right of redemption.
 - B. The bank's permission to redeem.
 - C. Redemption of equity.
 - D. Redemption legal reclaim.
41. The payment of an old loan with a new loan is termed "refinancing". Which is the least likely purpose for "refinancing" loans?
- A. To acquire the property
 - B. To pay for rehabilitation or modernization
 - C. To get more advantageous loan than was on the property
 - D. To raise money for purposes of satisfying a balloon payment
42. A buyer wants to take out an FHA loan. The broker should refer the buyer directly to:
- A. Any approved lending institution such as a bank or savings and loan association.
 - B. An FHA appraiser in the area.
 - C. The Federal Housing Administration Office.
 - D. The Federal National Mortgage Association.
43. Under Truth-in-Lending, it is permissible to advertise which of the following statements alone?
- A. \$2000 down
 - B. 10% interest per annum
 - C. Low down payment
 - D. \$125 per month
44. Truth-in-Lending laws apply to:
- A. Commercial loan transactions involving real property
 - B. Residential real estate mortgages 1-4 family dwellings
 - C. All personal property transactions
 - D. Unconscionable contracts
45. The Truth-in-Lending law is designed to do which of the following?
- A. Limit the amount of interest charged the borrower
 - B. Limit the amount of closing costs
 - C. Make it possible to easily shop loan interest and terms
 - D. Stop usury
46. Property purchase for \$600,000 with a \$500,000 mortgage, it's present value is \$750,000 and the mortgage balance is 450,000. A much equity does the owner have?
- A. \$100,000
 - B. \$150,000
 - C. \$300,000
 - D. \$250,000 is lease
47. The restrictions relating to advertisement of credit terms contained in the Truth-in-Lending law:
- A. Would permit the use of the phrase "no down payment" without further disclosure of financing terms.
 - B. Apply to newspaper, TV, radio, and magazine ads, but not to direct mail solicitation.

MULTIPLE CHOICE - FINANCING

- C. Mandates the use of the interest amount in dollars when advertising.
D. Mandates the use of the annual percentage rate (APR) when advertising interest rates.
48. Regulation Z provides a right of rescission:
A. To first mortgages only.
B. That expires three business days after the date of consummation of the transaction or the date on which the lender makes material disclosures, whichever is later.
C. That applies to commercial and residential loans.
D. For Junior liens only.
49. Charley is purchasing a home for \$78,000 and the lender is giving a 90 percent loan at 10 percent interest, plus a 2 percent loan origination fee. How much is the loan origination fee?
A. \$1,560
B. \$1,404
C. \$7,020
D. \$1,650
50. Based on the 9% APR, how much simple interest accumulates in one year if a buyer purchases a property for \$85,000 and receives a loan based on a 75% loan to value ratio?
A. \$7,650
B. \$5,738
C. \$1,913
D. \$4,250
51. In the event a first mortgagee fails to record his/her mortgage and a good-faith second mortgagee records his/her mortgage first, which of the following would be true?
A. The second mortgagee has priority.
B. The borrower is personally liable only to the first lender
C. Both lien holders split the loss
D. Recording is not an issue; it is the date of the loan that matters
52. Assume that a buyer is making fully amortized payments of \$600 per month on a purchase-money mortgage. Which of the following is true?
A. The amount applying to the principal decreases each month.
B. The interest payment stays the same.
C. Interest and principal payments are constant.
D. The amount applying to interest decreases each month.
53. What would a private investor use to insure a conventional loan?
A. Federal Housing Administration
B. Federal Home Loan Bank
C. Federal National Mortgage Association
D. Private Mortgage Insurance (PMI)
54. Of the following, who is benefited by an acceleration clause in a mortgage?
A. The borrower
B. The lender
C. A future purchaser upon resale of property
D. The trustee
55. All of the following are considered benefits to a deed in lieu of foreclosure except:
A. Mortgagee receives property immediately without waiting out redemption time
B. Mortgagor and mortgagee avoid the expense of legal process
C. Property will probably have less damage when received by mortgagee
D. Mortgagor must pay the mortgagee the difference between the mortgage balance and the current appraised value of property
56. An "acceleration clause" found in a promissory note or mortgage would mean that:
A. Upon the happening of a certain event, the entire amount of the unpaid balance becomes due.
B. Payments must be made more frequently at a future specified date.
C. The interest rate can increase.
D. Payments may not be made more frequently than specified.
57. If the mortgagee has the property sold at a foreclosure sale and it brings an amount inadequate to pay off the loan, what can the mortgagee do?
A. Sue the mortgagor for the deficiency
B. Cancel the sale
C. Hold the mortgagor criminally liable
D. Cancel the redemption period

MULTIPLE CHOICE - FINANCING

58. The points of non-conventional loans are computed and based on:
- A. Sales price
 - B. Listing price
 - C. Loan amount
 - D. Closing costs
59. A mortgagor's right to reclaim the foreclosed property from the successful bidder within a certain period of time starting from the date of the foreclosure sale is:
- A. Satisfaction of mortgage
 - B. Equitable right of title
 - C. An action for judgment
 - D. Statutory right of redemption
60. When is a mortgagor most likely released from liability under a mortgage?
- A. Upon a sale subject to the mortgage
 - B. Upon an assumption of the mortgage
 - C. Upon a sale under a land contract
 - D. Upon recording a discharge
61. A clause in a mortgage that may permit the lender to call the entire balance due if the property is sold or otherwise conveyed by the mortgagor is called:
- A. Defeasance clause
 - B. Alienation clause (due on sale clause)
 - C. Acceleration clause
 - D. Power of sale
62. Mortgage satisfaction is evidenced by which of the following?
- A. Estoppel certificate
 - B. A discharge
 - C. Acceleration
 - D. Promissory note
63. In real estate financing, the debt is evidenced by:
- A. A mortgage
 - B. A promissory note
 - C. A chattel mortgage
 - D. A financing statement
64. Which of the following is a source of primary mortgage funds?
- A. MGIC
 - B. Federal National Mortgage Association
 - C. Federal Home Loan Mortgage Corporation
 - D. Federal Savings and Loan Association
65. Two years ago, John bought a home on a VA loan. John has just been transferred to another city and is concerned with his present mortgage as well as purchasing a new home after the transfer. What can John do?
- A. Surrender the home to VA who guarantees the loan
 - B. Must sell the home to another veteran
 - C. Allow a non-veteran to assume the loan and move on to purchase another home on a second entitlement
 - D. The lender must accept a deed in lieu of foreclosure and record a loan discharge
66. Which of the following is true regarding REO?
- A. Property available on the short sale
 - B. Property sold with seller financing
 - C. Property in the process of foreclosure and can be redeemed by an investor
 - D. Property owned by a foreclosing lender
67. Which of the following is NOT considered to be a benefit of an FHA loan?
- A. A low down payment
 - B. Property will be fixed up before closing
 - C. Loans are automatically assumable
 - D. Loans are insured
68. Which of the following is most likely considered to be illegal?
- A. Private seller on land contract charges 14% interest
 - B. A bank charges 24% interest on a mortgage loan
 - C. A broker charges a 26% commission
 - D. A buyer pays commission to the broker instead of the seller
69. Susan used a \$30,000 home equity loan secured by her present home, to purchase an investment that she was thinking of fixing and flipping at a later time, which of the following types of loans is most applicable to her situation?
- A. A partially amortized loan
 - B. A balloon mortgage
 - C. A bridge loan
 - D. An interest only loan

MULTIPLE CHOICE - PRINCIPLES OF AGENCY

MULTIPLE CHOICE - PRINCIPLES OF AGENCY

1. Which of the following is true regarding an open listing given to 4 different brokers if one of them sold it?
 - A. They all split the commission.
 - B. 50% of the commission goes to the one who sold it and the other 50% is distributed between the other brokers.
 - C. An open listing is illegal.
 - D. Only the broker who sold the property receives a commission and the others get nothing.
2. All but which one of the following are proper responsibilities of the listing agent?
 - A. Loyalty to the principal
 - B. Due diligence and skill
 - C. Accounting for funds and indemnification
 - D. Obtaining the best possible financing for the buyer
3. Listing agent knows that seller is anxious and willing to take less than the listing price. The buyer asks if the agent recommends any other price besides the asking price. Agent must:
 - A. Be honest and indicate that seller will accept less.
 - B. Tell the buyer that seller indicated that he will not accept less under any circumstances.
 - C. Tell the buyer that he could make an offer but the agent can guarantee nothing.
 - D. Call the seller and ask him if he should tell the buyer that the seller will take less.
4. As a buyer's agent, a broker feels that property is overpriced, but buyer indicates willingness to offer full price. Broker must do which of the following?
 - A. Have the buyer sign a full price offer and present it to the seller for a fast sale.
 - B. Tell the buyer to offer less and not present an offer unless the buyer agrees to lower the price.
 - C. Advise the buyer as to what the fair market value should be and leave it up to her.
 - D. Urge the buyer to offer full price because the broker always has duty to the seller, no matter what type of agency is created.
5. As agent of the buyer, you know that a certain bank is offering lower interest rates than what the buyer thinks he can get from another lender where

the mortgage loan officer is a friend of the buyer. Your duty is to:

- A. Leave the buyer alone, since he is a client and should not be bothered.
 - B. Contact the loan officer directly and tell him.
 - C. Inform the buyer of the other lender's rates and urge him to take the savings.
 - D. Ignore the lower rates, since that will cause delays in financing and hard feelings between the two friends.
6. A broker is hired under an exclusive right-to-sell listing agreement and later is told by the owner that the owner's daughter is buying the house directly from the father. The broker should:
 - A. Terminate the listing.
 - B. Insist that the daughter write the offer through the broker's company.
 - C. Inform the seller that he will owe a commission.
 - D. Advise the seller to wait until the listing expires six months later, then sell the property to his daughter in order to avoid paying a commission.
 7. A person who authorizes another person to act on his/her behalf is called:
 - A. The salesperson
 - B. The fiduciary
 - C. The agent
 - D. The principal
 8. An agent of the seller is not responsible for telling a prospective buyer that:
 - A. House has a potential structural defect.
 - B. Zoning makes the potential use of property non-conforming.
 - C. Inspection of a house has shown some signs of termite damage.
 - D. An owner will accept less for a property than what it is listed for.
 9. After showing a property a number of times and not securing an acceptable offer, the broker decides to buy the property himself. He must do which of the following?
 - A. Wait until the listing expires and then submit an offer to purchase
 - B. Make his/her true position known to the seller
 - C. Buy it through a third party
 - D. Must split the profit with the owner

MULTIPLE CHOICE - PRINCIPLES OF AGENCY

10. The listing broker owes a direct fiduciary responsibility to whom?
- A. The listing salesperson
 - B. The buyer
 - C. The listing owner
 - D. The cooperating broker
11. A sub-agent of a seller would best be described as which of the following?
- A. Special agent
 - B. General agent
 - C. Transaction coordinator
 - D. Designated agent
12. The best description of a special agent would be a person who:
- A. An attorney
 - B. A broker
 - C. Has limited authority
 - D. Contractual authority
13. If a prospective buyer makes an offer that is much lower than the listed price, the broker must do which of the following?
- A. Try to persuade the seller to accept it
 - B. Present the offer to the seller
 - C. Do not accept the offer
 - D. Accept the offer and wait until other offers on the property are made before presenting it to the seller
14. An owner requests a broker to list a property for sale at \$70,000. Upon inspection, the broker believes the property is worth \$80,000. The broker should:
- A. Get a net listing for the property at \$70,000
 - B. Buy the property for \$70,000
 - C. Inform the seller that the property is worth \$80,000
 - D. Suggest that the owner list the property for \$75,000 so that there will be room for bargaining
15. Termination of listing by force of law applies to which of the following?
- A. Property is condemned by the city
 - B. Property is hit by tornado, only the basement is left
 - C. Listing had expired
 - D. Property is sold and closed
16. The broker's responsibilities in presenting to the seller a written offer to purchase include:
- A. Making known to the seller all written offers before seller accepts an offer
 - B. Making known the legal ramifications and practical effects of an offer
 - C. Advise the seller as to the tax consequences of the sale
 - D. Advise the seller to reject the initial offer in an effort to get a higher price
17. All but which one of the following are proper responsibilities of a real estate agent?
- A. Loyalty
 - B. Indemnification
 - C. Financing
 - D. Accounting For Funds
18. A broker (seller's agent) informs his/her salespeople of a leak in a roof of a property that is listed with his/her office. This fact is also made known to a subagent who cooperates with the listing office and sells the property, but does not tell the buyer about the leak and the buyer does not learn about the leak until after the closing. All of the following are liable for failure to disclose this information except the:
- A. Listing broker
 - B. Seller
 - C. Selling salesperson
 - D. The buyer
19. Listing owner tells broker that he will not pay him a commission because the seller sold the property himself, most likely the seller has signed
- A. An exclusive right to sell
 - B. An exclusive agency listings
 - C. A limited service listing
 - D. A short term listing
20. A salesperson responds to an ad in the paper by a "For Sale by Owner." The owner gives the salesperson a key to inspect the property being sold. What type of agency is thereby created?
- A. Fiduciary
 - B. Implied agency
 - C. Contractual
 - D. None
21. In a multiple listing, a salesperson that negotiates a sale is directly responsible to:

MULTIPLE CHOICE - PRINCIPLES OF AGENCY

- A. Listing broker
B. His/her or her employing broker
C. Cooperating salesperson
D. The seller
22. As agent of the seller, a real estate broker is usually authorized to do all except which of the following?
A. Bind the principal under a sales contract
B. Advertise the listed property
C. Place a "for sale" sign on the listed property
D. Cooperate with the other brokers to effect a sale
23. A seller tells his or her broker that termites have destroyed the floor and that the swimming pool is in violation of the city setback requirement. Furthermore, the seller indicates that the neighbor's garage encroaches 3 inches over his property line and that he is anxious to sell the house because he's being transferred. The broker's salesperson is required to disclose to a buyer all of the following except:
A. Condition of floor
B. Pool violation
C. The transfer
D. The encroachment
24. Sally and David work for sunshine Realty. Sally listed a house and was designated as a seller's agent, David obtained a buyer agency contract and was designated as a buyer's agent. In the event that David's buyer buys Sally's listing, which licensee of the company becomes a dual agent?
A. Sally only
B. David only
C. Both Sally and David
D. Their broker
25. According to the laws of agency:
A. Broker must always charge a commission and put the amount on the listing form
B. Broker may sue and collect a commission even without disclosing that s/he acted in dual capacity
C. A net listing is legal but only if the agent makes a reasonable amount of profit on the property
D. If a listing has a protection clause and the seller sells the property to the broker's buyer during the protection period, the seller must pay a commission
26. Except under specific conditions, an agent may serve only one principal at a time; however, a principal may have more than one agent. Which of the following would best describe such a situation?
A. Multiple listing
B. Open listing
C. Exclusive agency
D. Exclusive right to sell
27. Which of the following does not terminate an agency created by a listing?
A. Insolvency of the listing broker
B. Fire destroying the listed property
C. Insanity of listing salesperson
D. Revocation of the broker's license
28. Which of the following is an example of Puffing?
A. Agent tells a buyer that she loves the decor in the house
B. Agent tells buyer that the landscape is one of the nicest that she had seen in a long time
C. Agent tells buyer that within the next five years, the economy in the city is expected to experience the highest growth in the nation
D. Agent tells buyer that the kitchen design was provided by an award winning architect
29. An agency that gives a broker an exclusive right as an agent, but, owner retains the right to sell the property himself, without paying a commission, is:
A. An exclusive agency listing
B. An open listing
C. An exclusive right to sell
D. A sale by owner listing
30. A contract providing for the payment of a commission to the listing broker, no matter who sells the property, is called a(n):
A. Net listing
B. Open listing
C. Exclusive-agency listing

MULTIPLE CHOICE - PRINCIPLES OF AGENCY

- D. Exclusive-right-to-sell listing
31. In the process of obtaining a listing on a property that shares a driveway with the adjacent house, the owner insists that you don't mention this fact to any prospective purchaser. Regarding this problem, you should:
- A. Inform a prospective buyer in spite of the seller's insistence
 - B. Not mention this fact unless a buyer asks
 - C. Refuse the listing
 - D. Do as the seller asks
32. If a broker holds two listings, an open listing on one property and an exclusive agency listing on another, and one week after both listings expire the two owners get together and exchange properties without previously being shown the properties, the salesperson may:
- A. Sue for full commission on both
 - B. Sue for commission on the open listing
 - C. Demand full commission on the exclusive listing
 - D. Receive no commission from either listing
33. The phrase "procuring cause" is most significant in relation to:
- A. An exclusive agency
 - B. An open listing
 - C. An exclusive-right-to-sell listing
 - D. A net listing
34. John and Sally work for a broker who does not practice designated agency. John listed a house and Sally obtained a buyer agency contract from her buyer. If Sally's buyer buys John's listing, what sort of agency relationship is there?
- A. John is the seller's agent, Sally is a buyer's agent, and the broker is a dual agent.
 - B. Everyone including John, Sally, other agents in the company, and the broker, is a dual agent.
 - C. John, Sally, and the broker are dual agents. Other agents in the company remain neutral.
 - D. John is a seller's agent, Sally is a buyer's agent, the broker does not become a dual agent unless he supervises both John and Sally in the same transaction.
35. In the process of performing due diligence, a listing agent discovers that there was a murder/suicide that took place in the property 15 years ago. Furthermore he discovers that the listing owner had shot and killed an intruder that was trying to rob him at the property. Furthermore the agent discovers three registered sex offenders in the neighborhood. As far as the condition of the property the seller refuses to provide a seller's disclosure statement but asks the agent not to mention the fact that the roof and basement leaks when it rains. If the agent accepts the listing, she must inform the seller that she would have to disclose
- A. The leak
 - B. The murder/suicide
 - C. The shooting of the intruder
 - D. The registered sex offenders
36. After listing the property, a buyer approaches the agent at an open house, introduces himself, and asks to negotiate directly with the seller. The agent tells the buyer to deal directly with him and promises that he will take good care of the buyer and very possibly get him a good price on the property because he is aware of the seller's motivation to sell. What type of relationship is created between the agent and the buyer?
- A. An agent-customer relationship
 - B. An expressed agency with the buyer
 - C. An implied/ostensible agency with a buyer
 - D. A designated agency with the buyer
37. All of the following will terminate a listing between a broker and seller except:
- A. Destruction of the listed property
 - B. Bankruptcy of the listing owner
 - C. The sale of the property
 - D. The owner informs the broker that he will not be able to pay the full commission because an offer submitted by the broker was too low
38. John works for a broker who practices designated agency. John listed property and was designated as the seller's agent. Two weeks later,

MULTIPLE CHOICE - PRINCIPLES OF AGENCY

John obtained a buyer agency and was designated as the buyer's agent. John's buyer bought his listing. What is the agency relationship with the buyer and seller?

- A. John is a transaction coordinator, his broker is a dual agent.
- B. John is a transaction coordinator as well as his broker.
- C. John is a dual agent as well as the broker.
- D. John is a buyer's agent, the broker is a seller's agent because the listing is in the broker's name.

39. A transaction coordinator is one who:

- A. Represents neither buyer nor seller.
- B. Acts as an agent of both buyer and seller.
- C. Acts as an assistant to an agent to coordinate different stages of the transaction.
- D. Represents neither buyer nor seller but must advise them equally.

40. After obtaining six listings, Kimberly decides to leave her real estate company and join a different broker, what is the status of the listings?

- A. They follow her to the new company
- B. They must be released by the Broker and relisted with the new company
- C. They stay with the former broker
- D. The owners will have a choice as to which company they prefer to go with

41. Which of the following is true regarding a six-month exclusive buyer agency contract?

- A. The buyer may sign the agreement with multiple brokers. Only the broker who locates a suitable property is entitled to a commission
- B. A broker will not be compensated unless the buyer either purchases one of the broker's listings or a listing offered in cooperation with another broker
- C. Regardless of who found the property, the broker is due a commission if the buyer buys during the six-month period
- D. If the broker locates property during the six-month term, it must be exclusively made available to the buyer who signed the contract

42. Which of the following is true with regards to the licensee's practice and limitations under a dual agency?

- A. The licensee gets paid by both buyer and seller
- B. The licensee must not advise neither side and allow the parties to carry-on with their own negotiations
- C. The licensee is not at liberty to disclose 100% of known information to neither side
- D. The licensee has a full fiduciary duty to both sides

43. How would a buyer's agent most likely help a client?

- A. Obtain an appraisal on properties that the buyer is interested in, in order to recommend a purchase price
- B. Conduct a market analysis on a property that the buyer is interested in and recommend a purchase price
- C. Research the history of the property as to the price paid by the seller to acquire the property as well as the cost of improvements made
- D. Contact the listing broker and inquire as to the seller's motivation to sell and the least price that she will accept

44. Which of the following terminates a listing by "operation of law"?

- A. Death of the broker who holds the listing
- B. Seller decides not to sell the property
- C. The death of the salesperson who gained the listing
- D. The sale and closing of the listed property

45. Seller indicated that a designer ceiling fan was not to be included in the sale and he excluded the item in the listing agreement. If the agent prepares the purchase agreement, who's responsibility is it to exclude the fan from the sale?

- A. It may not be excluded because it's a fixture.
- B. The seller.
- C. The seller must hire an attorney to go over the contract and write proper language to exclude the fan.
- D. The agent.

MULTIPL CHOICE QUESTIONS - PROPERTY CONDITION & DISCLOSURE

MULTIPL CHOICE QUESTIONS, PROPERTY CONDITION & DISCLOSURE

- 1- The purpose of the seller's disclosure statement is to:
 - A. Determine all defects with the property
 - B. Inform a potential buyer of conditions known to the seller
 - C. Be able to sue the seller for any defects with the property
 - D. Stop the buyer from withdrawing from the sale before closing
- 2- A buyer signed a purchase agreement and was later able to legally withdraw from the transaction and received a refund of the deposit. Under which of the following circumstances was the buyer able to rescind the transaction?
 - A. The buyer could not be approved for a loan at favorable interest rates
 - B. The buyer was surprised that his employer was transferring him to another city
 - C. The buyer heard that someone was killed in the house
 - D. The buyer did not receive a seller's disclosure statement
- 3- All of the following are material facts except:
 - A. Leak in the roof
 - B. Crack in the basement wall
 - C. Problem with plumbing
 - D. Seller is anxious to sell
- 4- Seller's disclosure statement must be provided to buyer:
 - A. No later than nine business days after signing the offer to purchase
 - B. Before an offer to purchase is signed
 - C. Any time before closing
 - D. No later than two days after closing
- 5- The listing salesperson has no duty to inform a buyer that:
 - A. Zoning is a problem for the property
 - B. Leaks from a nearby toxic waste dump site have caused underground pollution.
 - C. Seller indicated that she will accept less for the property
 - D. The city inspector will probably not issue a permit to build on this property unless a cleanup takes place
- 6- An owner asks the salesperson if his company will accept less commission. The salesperson must:
 - A. Leave the commission blank after signing the listing agreement and see if the broker will later allow a lower commission.
 - B. Tell the owner that all commissions are set by the state and there is nothing he can do
 - C. Lower the commission to any reasonable amount agreed upon between the salesperson and the owner.
 - D. Tell the owner that the decision must be made by the broker and he has no authority to accept less commission.
- 7- The street in your neighborhood has been paved by the city. How will that affect your tax bill?
 - A. Millage rate will increase.
 - B. Assessed value will decrease.
 - C. You may receive a bill for special assessments
 - D. Your property tax will be lowered.
- 8- An agent inspects a new listing and notices obvious leaks in the roof as well as around windows. He is told by the seller that the furnace is not working properly and that all the defects will be disclosed on the seller's disclosure statement. The agent also notices water in the basement, but the seller tells him to ignore the water because he had paid a company to fix it but it still leaked, therefore they were coming back to fix it again under warranty. Which of the following is NOT considered to be proper behavior by agent?

MULTIPL CHOICE QUESTIONS - PROPERTY CONDITION & DISCLOSURE

- A. Make sure that the leaks and the furnace issue are disclosed
 - B. Recommend an inspection to a potential buyer just in case there are more defects in the property
 - C. Since the issue with the basement is covered by warranty, there is no need to be concerned with it
 - D. Provide a completed seller's disclosure statement to the buyer before signing the purchase agreement
- 9- A provision placed in the deed by the seller aimed at controlling the present and future use of property is called:
- A. Seller restriction
 - B. Land use regulation
 - C. Unnecessary burden on the buyer
 - D. Deed restriction
- 10- An agent is selling a vacant lot in a neighborhood that is not served with sanitary sewers. The agent should make the purchase agreement subject to
- A. A foundation inspection
 - B. A percolation test
 - C. A soil sampling inspection
 - D. A building permit
- 11- Which of the following would be covered under a home / construction warranty?
- A. Damages resulting from overpaying for the property
 - B. Damages resulting from a defective title
 - C. Damages resulting from a defective furnace
 - D. Damages resulting from an unpaid water bill prior to closing
- 12- John is thinking about selling his house but wants to try it "by owner" to see if he can save the commission. Sally provides John with a free market analysis hoping to list the property and informs him of the necessity of providing a seller's disclosure statement. John thanks Sally for her service but refuses to list the house with her. If John needs a copy of the seller's disclosure form, where can he get it?
- A. Sally must provide it to him even though he did not hire her
 - B. Sally can refer him to the state website where he can download it
 - C. Sally can suggest that he contact a lawyer or the local government
 - D. Sally should tell him that the disclosure is required only when a licensee is involved in the sale of the property

MULTIPLE CHOICE - CONTRACTS

MULTIPLE CHOICE - CONTRACTS

1. When the parties to a contract agree to close by a certain deadline with absolutely no extensions, what must the contract state?
 - A. Irrevocable offer clause
 - B. Time is of the essence clause
 - C. Time extension clause
 - D. Absolute deadline clause
2. When a party to a contract makes a promise in exchange for another promise, this contract is:
 - A. Unilateral
 - B. Bilateral
 - C. Implied
 - D. Executed
3. All of the following elements are essential to validate a contract except:
 - A. Valuable consideration
 - B. Legal capacity of the parties
 - C. Meeting of the minds
 - D. Witnessing
4. A 25-year-old individual signed a contract with a 17-year-old. The contract may be subject to the following:
 - A. If the minor decided not to perform, he may be forced to do so by a court of law.
 - B. The major is not obligated to perform.
 - C. It is up to the minor to enforce the contract or to void it.
 - D. The contract is enforceable by the major but not the minor.
5. A purchase agreement is signed by all parties, but later it is determined that the price will be lowered in return for the seller not including some of the appliances. What must the agent do?
 - A. Do nothing; it is up to the parties to do what they want.
 - B. Close the deal based on the new terms; just make sure that the closing statement reflects the new price.
 - C. Cancel the purchase agreement and have them sign a new one.
 - D. Draw an amendment reflecting the changes and have the parties sign it before the closing.
6. Under an option period of six months to purchase property, all of the following are true except:
 - A. The optionee may assign the option to a third party.
 - B. The optionee may exercise the option at any time within the six months.
 - C. The optionor may not force the optionee to perform under the option.
 - D. The optionor must return the option payment if the optionee does not exercise the option.
7. When a party to a contract fails to meet its terms, this is known as:
 - A. Novation
 - B. Assignment
 - C. Breach
 - D. Performance
8. Seller accepted an offer and later refused to close the deal. The buyer may do which of the following:
 - A. Do nothing.
 - B. Ask for his deposit to be refunded, since there is no other legal remedy.
 - C. Sue the broker.
 - D. Sue for specific performance.
9. A novation is:
 - A. The same as a sublease
 - B. Acquiring property after encroaching on it for the statutory period of time
 - C. The substitution of a new person or contract in place of another
 - D. A nonperformance
10. Seller is asking \$200,000 cash and the buyer offered \$180,000 which was rejected by the seller. The seller sent a counteroffer for \$190,000 but the buyer rejected it. Later the seller decided to accept the original \$180,000.
 - A. The buyer is obligated to buy the property for \$180,000.
 - B. The seller has no right to accept the \$180,000 price since he had rejected it in the first place.
 - C. It is up to the buyer to offer \$180,000 again, since his original offer was rejected.
 - D. The buyer should have accepted the counteroffer, because counteroffers are always binding.

MULTIPLE CHOICE - CONTRACTS

11. The best and most satisfying way of terminating a contract is:
- A. Abandonment
 - B. Breach
 - C. Default
 - D. Performance
12. The name of a law that requires contracts to be in writing in order for them to be enforceable is:
- A. Statute of limitations
 - B. Statute of written contracts
 - C. Statute of frauds
 - D. The occupational code
13. All of the following are considered real estate contracts except:
- A. An option
 - B. A sales contract
 - C. A mortgage
 - D. Duress
14. When purchaser defaults on purchase agreement, the earnest money deposit is:
- A. Paid to the broker
 - B. Paid to the seller as liquidated damages
 - C. Refunded to the buyer because it is illegal to keep anyone's money
 - D. Legally split between the broker and the seller
15. To withdraw an offer before it is accepted is known as:
- A. Rescission
 - B. Rejection
 - C. Revocation
 - D. Breach
16. Under what circumstances can a buyer revoke his/her offer to purchase?
- A. Any time before the closing.
 - B. No later than three days after it has been accepted by the seller.
 - C. Any time before he/she is notified that his/her offer was accepted by the seller.
 - D. Once an offer is made, it may not be revoked unless rejected by the seller.
17. A purchase agreement is considered accepted and binding on both parties when:
- A. A full price offer is made by the buyer.
 - B. A closing takes place.
 - C. The acceptance of the seller has been communicated back to the buyer.
 - D. Offer is accepted, buyer is notified of acceptance, and there is an earnest money deposit with the broker.
18. According to law, the smallest amount of monetary deposit that must accompany an offer to purchase is:
- A. \$500
 - B. \$1.00
 - C. No less than 5% of the purchase price.
 - D. None is specified
19. Tom made an offer and placed a deposit with the seller and the offer was accepted. Later he decided to withdraw from the deal, and the seller released him and gave him back his deposit. This is known as:
- A. Breach
 - B. Rescission
 - C. Novation
 - D. Lack of interest
20. All of the following are true regarding a sales contract except:
- A. It is binding on both parties.
 - B. It will be terminated at the closing.
 - C. It sets the price and terms.
 - D. It transfers legal title.
21. Under an option to purchase property for \$125,000 with a \$2,000 option fee, all of the following are true except:
- A. Option may be assigned.
 - B. Option must be exercised.
 - C. Optionor may not refuse to sell.
 - D. Option fee is not refundable.
22. Charles put an offer on a house subject to obtaining financing and the offer was accepted by the seller. Later Charles was unable to obtain financing and brought the seller a letter of rejection from the bank. Which of the following is true about Charles' deposit?
- A. The deposit must be kept with the broker until Charles finds another property.
 - B. The seller gets the deposit.
 - C. The broker keeps the deposit as liquidated damages.
 - D. The deposit is refunded to Charles.

MULTIPLE CHOICE - CONTRACTS

23. Buyer makes an offer subject to the sale of the buyer's house, the seller does not want to wait indefinitely. What should the seller do?
- A. Reject the offer unless the buyer already has a purchase agreement on the house that he is selling
 - B. Accept the offer, especially if the market is slow, but keep reminding the buyer that he must sell his property as soon as possible
 - C. Accept the offer but add an "escape clause" reserving the right to accept a subsequent offer from a different buyer
 - D. Accept the offer but place a short deadline on the closing, if the buyer cannot close by the stated deadline, the purchase agreement will automatically become null and void
24. All of the following have contractual ability except:
- A. An unmarried person 18 years old.
 - B. An illiterate person.
 - C. A single 62-year-old man still living with his parents.
 - D. A well-educated college professor well under the influence of alcohol.
25. Interest that buyer acquires in property after the signing of a sales contract by all parties:
- A. Title
 - B. Adverse possession
 - C. Equitable title
 - D. None whatsoever
26. Seller is asking \$125,000 but accepted a \$110,000 offer subject to financing. A week later a full-price offer is made to the seller. Under which of the following circumstances can the seller accept the second offer?
- A. Under no circumstances whatsoever. The seller may not accept any other offers once an offer is accepted.
 - B. Only after contacting the first buyer and getting his permission to accept a second offer.
 - C. As a backup offer, which will only be effective if the first buyer withdrew from the deal.
 - D. Only after sending a certified letter to the first buyer and not receiving an answer within a specified period of time.
27. An agent received an offer to purchase and contacted the seller but was not able to see her until 10 o'clock at night. Before leaving his office, he was contacted by another cooperating agent who presented him with a second offer that was much lower than the first offer that he has. What should the agent do?
- A. Reject the second cooperating offer, since it is much lower and there is no chance the seller will accept it.
 - B. Tell the cooperating agent that he has to wait, since there is already an offer that must be either accepted or rejected before any other offer could be presented.
 - C. Take the second offer and present it to the seller anyway.
 - D. Take the second offer from the agent, but it is legal not to present it to the seller since there is no chance that she will accept it.
28. As agent of the buyer, Susan is showing an out of town buyer a house that has been on the market for 18 months listed at \$300,000. What must Susan do regarding her knowledge of the length of time the property has been on the market?
- A. Disclose this fact because it is a state law requirement.
 - B. Not disclose because it can jeopardize the seller's bargaining position.
 - C. Susan must mention this fact to the buyer because, as a buyer's agent, she must disclose all known facts about property especially something that could improve the client's bargaining position.
 - D. Should ask the seller if they mind that such a fact be disclosed to the buyer.
29. Landlord gives tenant the right to buy property at a certain price on or before lease expiration, this is known as:
- A. Lease with option to buy
 - B. Lease with obligation to buy
 - C. Lease with tenancy
 - D. Lease with specific performance
30. What should a seller who decides to revoke a counteroffer do?
- A. She must make sure that buyer is notified before the counteroffer is accepted.
 - B. She may not do so.

MULTIPLE CHOICE - CONTRACTS

- C. She must notify the buyer of accepting another offer, which automatically nullifies her counteroffer.
D. She must wait at least 3 days from the date of her counteroffer according to law.
31. As a buyer's agent, the best time to qualify a buyer is:
A. After an offer has been made and the price is determined.
B. At no time, since the buyer should know how much she can afford.
C. If the buyer requests that the agent analyze her financial position.
D. Before selecting houses to show so we can determine what a buyer can afford.
32. Tenant requested a low monthly rental rate for one-year and agreed to purchase the property at the end of the lease, this arrangement is known as:
A. Lease with option to buy
B. Lease with right of first refusal
C. Lease with obligation to buy
D. Tenancy from period to period
33. An offer to purchase is accepted and later it is determined that the closing cannot take place on the date stated in the contract of sale (purchase agreement). If the buyer and seller agree to delay the closing 10 days, the broker should:
A. Draw an amendment and have the buyer and seller sign it.
B. Rescind the transaction and draft a new offer.
C. Change the closing date of the contract and have the seller initial it.
D. Do nothing because the parties agreed to the change.
34. Under an option for a period of 120 days to purchase a property for \$40,000 with payment of \$2,000 option fee, all of the following statements are true except:
A. The optionee is the buyer.
B. The optionor is the seller.
C. The optionor may not force the optionee to perform under the option.
D. In order for the optionee to purchase the property, she must be willing to match any offer that comes on the property from a third party.
35. When a party to a contract does not satisfy the terms of the contract, this is called:
A. Novation
B. Breach of contract
C. Menace
D. Rejection
36. In a contract that involves a buyer and a seller, if the seller fails to perform, the buyer may do all of the following except:
A. Sue for damages.
B. Get back the deposit money.
C. Sue for specific performance.
D. Leave the purchase price with a court clerk and occupy the property anyway
37. If one of the parties to a contract of sale (purchase agreement) signs the contract on the basis of false statements about the property, the contract is voidable on which of the following grounds?
A. Contractual ability of the parties
B. Duress
C. Misrepresentation of facts
D. Lack of consideration
38. A novation is best defined as:
A. The assignment of one party to another of a contract wherein both the original parties remain liable.
B. The substitution of one party for another in a contract wherein the original contract is extinguished and the undertaking of the new party is a new obligation.
C. The same as a revocation.
D. A means of acquiring title by adverse possession.
39. Upon the seller's default, what should happen to the earnest money deposit?
A. It belongs to the broker.
B. It is returned to the buyer
C. It is used to reimburse the broker for out of pocket expenses, the rest is given back to the buyer.
D. It is automatically applied towards future purchase of other property by the buyer.

MULTIPLE CHOICE - CONTRACTS

40. Which of the following phrases is out of place?

- A. Valuable consideration
- B. Offer and acceptance
- C. Breach.
- D. Mutual assent

41. Buyer made an offer at less than the asking price. Seller then made a counteroffer. Buyer would not accept the counteroffer. If seller then agreed to accept the first offer, which of the following statements about the transaction is true?

- A. The buyer must complete the deal.
- B. The broker can force the buyer to perform.
- C. The buyer was released from the offer because the seller made a counteroffer.
- D. The broker is liable if the contract is unenforceable.

42. What is the most important reason for placing an earnest money deposit?

- A. Valuable consideration
- B. Liquidated damages
- C. To show the seller that the buyer is serious about the purchase
- D. To bind the contract, otherwise it will not be binding even if the seller accepts the offer

43. Property owner signs an option with land developer agreeing to sell his property for \$3 million to this particular developer. The option is valid for 3 years. This agreement is

- A. A bilateral contract between the parties where both buyer and seller have agreed to perform
- B. A unilateral contract where the buyer only has made a commitment
- C. A unilateral contract because only the seller is obligated
- D. A purchase agreement between the parties

MULTIPLE CHOICE – LEASING AND PROPERTY MANAGEMENT

MULTIPLE CHOICE – LEASING AND PROPERTY MANAGEMENT

1. A lease that requires a tenant to pay all operating expenses such as property taxes, insurance and maintenance, is:
 - A. A percentage lease.
 - B. A net lease.
 - C. A graduated lease.
 - D. A gross lease.
2. A tenant who is interested in purchasing the house she is leasing and wants a chance to match a bid that may come in from a third party should obtain:
 - A. A lease option.
 - B. Right of first refusal.
 - C. A lease assignment.
 - D. A third party contract.
3. The following statement is true concerning subleasing:
 - A. The lessor collects rent directly from the sublessee.
 - B. The sublessor is leasing from the sublessee.
 - C. The sublessee is the owner.
 - D. The sub-lessor is liable for damages caused by the sub-lessee.
4. When the tenant pays a fixed amount of rent and the landlord pays expenses on the property, this is a:
 - A. Gross lease
 - B. Net lease
 - C. Escalation lease
 - D. Expense paid lease
5. Which is true about assigning a lease?
 - A. According to the law, once a lease is assigned, the assignor must be released from responsibility if the assignee did not pay.
 - B. The assignee is automatically released from liability.
 - C. The landlord/lessor may or may not release the assignor/lessee of liability.
 - D. It is the same as a sublease.
6. The tenant's interest in leased premises is known as:
 - A. A life lease.
 - B. A reversionary estate.
 - C. Tenant's rights.
 - D. A leasehold estate.
7. A lease that specifies lower rent payments in the early stages and later the rent is increased is known as:
 - A. A partially increased lease
 - B. Graduated lease
 - C. Percentage lease
 - D. A low rent lease
8. A lease provides for increases based on future expenses of property, this is explained in the :
 - A. First right of refusal clause
 - B. Net lease clause
 - C. Escalation clause
 - D. Expense clause
9. A nine-month lease creates:
 - A. Tenancy from period to period.
 - B. Tenancy at sufferance.
 - C. Tenancy for years.
 - D. Tenancy in common.
10. Sharon purchases a 10-unit apartment building and discovers that six of the tenants have low rent leases while the others are paying low rent on a month-to-month basis. What can Sharon do?
 - A. Inform the tenants with leases that they have to re-negotiate a new lease with the new owner.
 - B. Immediately raise rents on those who have month-to-month leases.
 - C. Legally, she could evict everyone and replace the units with new tenants.
 - D. She could raise rents for tenants that are on month-to-month basis with proper written notice; as for those who have leases, she must wait until the leases expire.
11. Which of the following would probably be under a percentage lease?
 - A. A doctor's clinic.
 - B. A single family home.
 - C. An apartment unit.
 - D. A retail establishment.
12. June leases a warehouse and pays \$3,000 per month and pays all property taxes, maintenance and insurance on the building. June is probably under:
 - A. A gross lease.
 - B. A warehouse lease.
 - C. An expense paid lease.
 - D. A net lease.
13. An escalation clause in a lease will probably provide for:
 - A. The right to terminate a lease.

MULTIPLE CHOICE – LEASING AND PROPERTY MANAGEMENT

- B. The right to assign the lease.
C. The right to assign or sublease.
D. Adjustments of rental payments in the future.
14. All of the following have leasehold estates except:
A. Tenant at will
B. Tenant for years
C. Tenant from period to period
D. Tenant by the entireties
15. When an assignment of lease clause is placed in a lease, this means that:
A. The lessee may not assign the lease under any circumstances.
B. The lessee may assign the lease to anyone she chooses without notice to the landlord.
C. The lessee may not sublease without approval of the landlord.
D. The lessee may not assign the lease without approval of the landlord.
16. When Susan signed a lease on her barbershop, her attorney recommended a fixtures clause that will serve to:
A. Provide her with automatic renewals upon expiration of lease.
B. Allow her to match an offer by a third party to purchase the property.
C. Allow her to remove any permanently attached personal items upon expiration of lease
D. Requires landlord to install all fixtures that she needs for her operation.
17. When John's lease expired, he was not sure whether he wanted to renew the lease or not, because his boss told him that he may be transferred. So he continued to send rent payments to his landlady, who continued to accept them. John's tenancy is known as:
A. Tenancy from period to period.
B. Tenancy at sufferance.
C. Tenancy in common.
D. Tenancy for years.
18. When Helen decided to lease space in a strip center to open up a Karate school she wanted to have the right to renew her lease upon expiration but the landlord refused to grant her a lease option but gave her a written promise that should her lease expire, she will be given the opportunity to match any offer made on her space by a third party. This is known as:
A. A lease extension.
B. A longer lease.
C. A lease option.
D. First right of refusal.
19. Which of the following will NOT terminate a lease?
A. Destruction of property.
B. Government condemnation.
C. The death of the landlord who has a life estate.
D. The sale of the property.
20. Which of the following is true about deed restrictions?
A. The local government to limit the use of property places them.
B. They are unenforceable if the grantor is dead.
C. They must be honored unless the grantor files a "quieting title suit" to avoid them.
D. They "run with the land".
21. A deed restriction is placed in the deed by:
A. The broker
B. The grantee
C. The grantor
D. The lender
22. Tenant wishes to lease residential property but does not want any surprises as far as monthly expenses, the tenant should request to sign a
A. gross lease
B. net lease
C. percentage lease
D. graduated lease
23. Which of the following leases would a motivated landlord offer to attract tenants and fill vacancies?
A. Net lease
B. Graduate / step up lease
C. Percentage lease
D. Index lease

MULTIPLE CHOICE – TRANSFER OF TITLE

MULTIPLE CHOICE, TRANSFER OF TITLE

1. In order to deliver title, the following must happen:
 - A. Grantor signs deed, grantee signs deed
 - B. Grantor and grantee sign, but deed must be delivered and accepted by grantee
 - C. Grantor signs and delivers deed to the grantee
 - D. Grantor signs, delivers deed, and deed must be recorded.
2. A general warranty deed must contain:
 - A. The covenant against encumbrances
 - B. A willing, able and ready seller
 - C. Monetary consideration
 - D. All covenants of title
3. A type of deed that involves no warranties and conveys whatever interest the grantor may have in property is the:
 - A. Special warranty deed
 - B. Bargain and sale deed
 - C. Covenant deed
 - D. Quit claim deed
4. Which of the following is not necessary to validate a deed?
 - A. A competent grantor
 - B. The granting clause
 - C. Valuable consideration
 - D. Recording
5. A warranty deed contains covenants as to the quality of:
 - A. Construction
 - B. Environmental problems
 - C. Title
 - D. The type of use
6. John deeded property to Charles, who failed to record. Later John deeded property to Susan, who accepted it in good faith and recorded it. Who would have superior rights to this property?
 - A. Charles, because he bought it first.
 - B. John, because by selling it twice neither sale was valid.
 - C. Susan, because she recorded first.
 - D. Charles and Susan will split the property
7. When closing a transaction, property taxes that were due but not paid are:
 - A. A debit to the buyer and a credit to the seller.
 - B. A debit to the seller.
 - C. A credit to the buyer.
 - D. Normally not prorated
8. On the closing statement, an amount of property tax paid in advance by the owner for a period extending after the day of the closing is:
 - A. A debit to the seller.
 - B. A credit to the buyer.
 - C. A debit to the seller but a credit to the buyer.
 - D. A debit to the buyer but a credit to the seller
9. To inspect for clouds on the title, you must:
 - A. Order a survey.
 - B. Order an environmental audit.
 - C. Order title search.
 - D. Pay a visit to the Register of Deeds office.
10. Title insurance will protect against all but which of the following?
 - A. A missing heir.
 - B. Forged signature.
 - C. Unrecorded lien.
 - D. Fire in the house.
11. To remove a cloud from the title through court proceedings, an individual must:
 - A. Obtain an abstract of title.
 - B. Obtain actual notice.
 - C. File a quieting title suit.
 - D. Obtain title insurance.
12. A lender's title policy is effective until:
 - A. A claim is paid.
 - B. Property is sold.
 - C. A cloud appears on the title.
 - D. The loan is paid off.
13. All of the following regarding title search is true except:
 - A. An abstract is the result of recorded conveyances and encumbrances.
 - B. An abstract will reveal the last owner of record.
 - C. An abstract is better than a title policy because it insures against monetary losses resulting from a clouded title.

MULTIPLE CHOICE – TRANSFER OF TITLE

- D. Both abstracts and title insurance are the result of title search.
14. The time allowed for recording an instrument is:
A. 24 hours
B. 72 hours
C. No more than 90 days
D. No time limit
15. Constructive notice is established by:
A. Showing the document to an individual.
B. Recording a document at the Register of Deeds office.
C. Filing a document with the court clerk.
D. Notifying an individual by certified mail after recording.
16. In the real estate business, all but which one of the following documents are usually recorded?
A. Deed
B. Land contract
C. Mortgage
D. Promissory note.
17. Helen has two mortgages on her property. One was placed in 1990 when she bought her home and the other in 1997 when she took a home equity loan from a different lender. It appears that the first lender failed to record the mortgage. Which of the following is true?
A. The first lender has a senior position since they had given the money first and the mortgage they received was dated earlier than the second mortgage.
B. Upon foreclosure, the 1990 mortgage will be paid first, and if any funds are left, then it will go to the second mortgage dated 1997.
C. If the 1997 home equity loan was recorded, then it became a senior lien.
D. Both loans have equal standing in the eye of the law.
18. All of the following must take place at the closing except:
A. Deed is signed by the seller and buyer.
B. Closing statement is provided and signed by the broker.
C. Closing is supervised by the broker.
D. Documents are sent to be recorded at the Register of Deeds office.
19. The clause in the title policy that allows an insurance company who paid a claim to seek reimbursement from the party who caused the loss is called:
A. Subordination clause.
B. The cloud clause.
C. Quieting title clause.
D. Subrogation clause.
20. Which of the following is most likely a disadvantage to real estate ownership?
A. Leverage.
B. Cash flow.
C. Liquidity.
D. Appreciation
21. A Bill of Sale is used:
A. Strictly when furniture is sold with a house.
B. When real estate that houses a business is sold.
C. To transfer title to chattel
D. When subsurface rights like oil and minerals are sold.
22. Which type of deed provides the least liability to the Grantor?
A. General warranty deed
B. Full warranty deed
C. Quit claim deed
D. Special warranty deed
23. All of the following are considered differences between an owner's title policy and the lender's policy except:
A. One of them covers the purchase price while the other covers the loan amount.
B. One is paid for by the seller while the other is paid for by the buyer/borrower.
C. One protects the buyer while the other protects the lender.
D. One compensates the buyer for losses due to a defective title while the other guarantees to the lender that title will not be defective.
24. All of the following judicial deeds except:
A. Sheriff's deed
B. Administrator's the
C. Guardian's the
D. Special warranty deed
25. The main purpose of the settlement statement is to:
A. Show seller concessions
B. State the amount of the broker's commission
C. Allow credit for buyer's deposit
D. Describe debits and credits for buyer and seller
26. Helen signs a buyer agency contract with her nephew Tom. The contractual relationship has been established with:
A. Tom
B. Tom's broker
C. Potential sellers
D. Brokers in the MLS

MULTIPLE CHOICE – PRACTICE OF REAL ESTATE

MULTIPLE CHOICE - PRACTICE OF REAL ESTATE

1. The following logo is required by law to be included in the following:

- A. Options to purchase but not to lease real estate.
- B. Certain real estate display ads.
- C. All closing statements and residential rental agreements.
- D. Commercial leases only.



2. A minority owner requests that the licensee deletes the anti-discrimination clause from the listing because he is offended by it and would not even dream of discriminating against other minority individuals. The licensee must:

- A. Delete the clause.
- B. Get permission from the broker before the clause is deleted.
- C. Ask the seller to wait until he sees the buyers in case they are of a different race group and the seller may still want to discriminate anyway.
- D. Tell the seller that it is a state requirement and a listing will not be valid without it.

3. To suggest to property owners that their property may be losing value due to entry of minorities into the neighborhood is:

- A. Legal as long as property is not listed below fair market value.
- B. Known as racial steering.
- C. Called blockbusting.
- D. Legal if done with government approval.

4. An owner contacted an agent asking to list property but indicated that minorities would not be allowed to buy. The agent must:

- A. Get state approval before listing property.
- B. Follow client's instructions.
- C. Refuse the listing.
- D. Accept the listing but show it to minorities anyway.

5. A family with children was legally turned down and was not allowed to rent in an apartment building. Which of the following would be an acceptable reason for the rejection?

- A. The complex was a senior citizen's complex for ages 62 or older.
- B. The complex was an adult community for those eighteen years old or older.
- C. The apartment building had a lot of students who would need their quiet to study.
- D. The family had little babies who would cry at night and bother everyone.

6. A lending institution has a policy of not making loans in a certain part of town because it is populated mostly by minorities. Although they would not state that reason on their rejection letter, they make sure they find something wrong with the applicant to turn him down. This practice is known as:

- A. Neighborhood steering
- B. Unethical bank lending
- C. Redlining
- D. Minority credit screening.

7. Which of the following is permissible under civil rights acts?

- A. Referring a buyer with AIDS to another company salesperson who has recently tested HIV positive because they will probably be more comfortable with each other.
- B. Refusing to rent to a mentally disabled individual despite the fact that she is accompanied by her mother who is competent and will sign the lease.
- C. Refusing to rent to a blind person with a leader dog because the complex allows no pets.
- D. Refusing to show a minority individual a house priced at \$1.5 million dollars because the licensee knows that the buyer cannot afford to purchase more than a \$350,000 home.

8. After vacating property, the manager noticed that his disabled tenant has made a few changes on the property. Which of the changes can the manager charge the tenant to restore?

- A. Tenant installed an elevator in the house.
- B. The front door was widened and a ramp was installed.

MULTIPLE CHOICE – PRACTICE OF REAL ESTATE

- C. Additional lighting was added to help tenant who has poor eyesight.
D. Deaf tenant has connected doorbell to lights inside the house so they blink when someone rings the doorbell.
9. A two-story apartment building is recently placed in service. Which level must have accessibility to disabled individuals?
A. Both levels.
B. Upstairs only if elevators are installed.
C. The ground level only if no elevators are installed.
D. Neither level needs to be accessible unless it was used for group homes.
10. An interested buyer indicated that she would only buy the house she was just shown if the neighborhood is “all white”. The agent responded by saying, “This neighborhood is, in fact, racially integrated”. Which of the following is true?
A. As long as agent was telling the truth, there is no problem.
B. Agent should also recommend to buyer to drive around neighborhood and inspect what type of minorities live there before buying.
C. Agent is guilty of “racial steering”. The proper answer would have been, “I am prohibited by law from discussing this matter”.
D. Agent should have screened a few neighborhoods for the racial composition of the occupants before bringing the buyer to this neighborhood and wasting her time.
11. Which of the following acts prohibited discrimination because of race without exceptions?
A. Civil Rights Act of 1866
B. Michigan Civil Rights Act (Elliot-Larson)
C. Fair Housing Amendment Act of 1988
D. Civil Rights Act of 1968
12. An owner of a duplex would not allow a family with children to live in the unit upstairs because children will be jumping up and down and he cannot go to sleep when he hears the noise. According to the fair housing act
A. This act is prohibited because it is discrimination against familial status
B. This act is permitted under exemptions - certain rules apply
C. The owner can limit the number of children but cannot refuse to rent altogether
D. This act is prohibited because it is discrimination with regards to marital status
13. A condominium Association bylaws prohibit pets that weigh more than 25 pounds. Sharon's son has an animal that has been trained to provide assistance but it weighs more than 25 pounds. What can the association's manager do?
A. As long as the bylaws clearly state a weight limit, the manager can prohibit the family from having the animal.
B. The manager can prohibit the animal but only if the family can replace that animal with another that weighs less than 25 pounds
C. Nothing
D. Allow the animal but can charge additional fees and deposit
14. Owner knows of mold growth inside the living room walls. He paints the walls and replaces some of the wallpaper. The home is immediately sold to an unsuspecting buyer without mentioning the mold. The buyer discovers the mold months later. This act by the seller is known as:
A. Silent fraud
B. Innocent misrepresentation
C. Fraud
D. Buyer Beware
15. Under what circumstances can a broker in Michigan pay a commission to someone who is not licensed in the state of Michigan?
A. Under no circumstances
B. Only to a licensed builder
C. If the person is a licensed broker from out of state and sends a referral
D. Only if the person lives in another country

MULTIPLE CHOICE – PRACTICE OF REAL ESTATE

16. A Russian property owner approaches a Russian agent to sell a restaurant that sells mostly Russian food. The agent lists the property and advertises strictly in Russian media to attract Russian business people who may be interested in operating the restaurant. This action by the agent is:

- A. Legal and will probably result in finding the best possible purchaser
- B. Illegal because an agent cannot advertise in minority publications
- C. Illegal because it discriminates against potential buyers who are not Russian
- D. Legal as long as he is following the owner's instructions

17. Upon investigating a licensee by HUD, which of the following would be the least determining factor in determining a violation?

- A. Licensee did not use the equal housing opportunity logo in his advertising
- B. Licensee directed advertising of a certain property to minority publications
- C. Licensee agreed to list property from a discriminating owner, but licensee never discriminated and showed the property to everyone
- D. Licensee did not intend to discriminate but his actions resulted in discrimination

18. After getting tired of trying to fix a leak in the basement, the seller decided to apply paneling to cover the cracks and sell the house. The buyer did not suspect any leaks in the basement, since she was purchasing the home during the wintertime when the ground is frozen and no leaks usually happen. The seller's action is best described as:

- A. Silent fraud.
- B. Perfectly legal under the theory of "caveat emptor".
- C. Misrepresentation
- D. Fraud

19. Which of the following violates the fair housing act?

- A. Showing a minority buyer a home in a predominantly minority neighborhood
- B. Refusing to show property to a minority buyer who cannot afford it
- C. Refusing to deal with a minority buyer who has poor credit, no income, and cannot qualify to purchase real estate
- D. Showing a Hispanic buyer homes, only in predominantly occupied Hispanic neighborhoods

20. A minor inherits property from his deceased parents. If the property must be sold to pay for the minor's living expenses, which of the following is true?

- A. If the minor was competent enough to receive title to the property, she is competent to deed the property to a buyer
- B. The property cannot be sold unless the minor reaches the age of majority
- C. A court – authorized legal guardian of the minor can deed the property to a buyer
- D. Only a probate judge can sell the property because a minor cannot receive title, title remains in the name of the court until the minor reaches the age of majority

21. A real estate advertisement for a house reads: "Call today for more information on this beautiful home." The advertisement also includes the following text: "This home is a must-see for anyone looking for a great investment opportunity." Which of the following is true?

- A. Yes, it discriminates against non-veterans.
- B. No, brokers can isolate any group and advertise to them
- C. No, veterans from various protected groups can qualify as long as they show good credit and income
- D. Yes, because the ads are directed to a certain protected group instead of equal treatment

MULTIPLE CHOICE – PRACTICE OF REAL ESTATE

22. A lender advertises that it specializes in reverse mortgage loans. Which legal issues apply?

- A. The ad violates the fair housing act
- B. The ad discriminates against young borrowers
- C. There is no legal issue; any person from any protected class can qualify
- D. . It illegally discriminates against individuals who do not own a principal residence

23. A private club has a wide variety of members who come from different nationalities, race, religion, etc. which of the following is true if the club builds senior citizen housing for its own members?

- A. Must allow any senior to occupy a unit, regardless of that individual's race, color, religion, etc.
- B. The club can limit occupancy of the units to its own members as long as the housing project is set up as a nonprofit operation
- C. The club must allow both members and nonmembers to buy or lease into the project but the only exception can be the race of the applicant
- D. limiting occupancy, strictly to its own members violates the fair housing act

MULTIPLE CHOICE - REAL ESTATE CALCULATIONS

MULTIPLE CHOICE - REAL ESTATE CALCULATIONS

- 1- Quarterly interest due on a \$185,000 loan is \$2,775. What is the annual interest rate?
- A. 6%
 - B. 1.5%
 - C. 3%
 - D. 2%
- 2- Property tax of \$4660/yr. paid in advance based on exact days method (calendar year). The seller stayed 6 months and sold the property. What is the proration at closing?
- A. \$2,330 credit buyer and debit seller
 - B. \$2,330 debit buyer and credit seller
 - C. \$4,600 debit the buyer and credit seller
 - D. \$4,600 debit seller and credit buyer
- 3- Property tax \$2,646.25 payable in advance but is not paid. Using exact days method what proration is due if closing is scheduled April 28?
- A. \$848.25 debit seller
 - B. \$848.25 debit buyer
 - C. \$1,798 debit seller
 - D. \$1,798 debit buyer
- 4- Property sold for \$72,650. Commission 6%. Calculate the transfer tax due to the county and the state
- A. \$ 312.39
 - B. \$ 624.79
 - C. \$ 627.80
 - D. \$ 619.20
5. If price is \$128,000 and loan-to-value ratio is 75% with 3 points, how much does the buyer need to close?
- A. \$34,880
 - B. \$130,880
 - C. \$98,880
 - D. \$35,840
6. If salesperson's commission was \$594 based on a 40% split, what was the total commission collected by the real estate company?
- A. \$1,485
 - B. \$2,970
 - C. \$990
 - D. \$1,980
7. Loan amount \$60,000 with 4% annual interest. Monthly payment is \$300/M, what is the balance upon making the first payment?
- A. \$59,700
 - B. \$59,800
 - C. \$59,750
 - D. \$59,900
8. Sue and Bill gross \$90,000/yr. The lender allows 43% of their income towards PITI. If property tax is \$6000/yr. and insurance \$1,200/yr. How much of a mortgage payment (P&I) can they afford?
- A. \$2,625
 - B. \$3,225
 - C. \$2,725
 - D. \$3,125
9. Two brokers cooperate to sell a \$250,000 house and equally share a 7% commission. The listing salesperson splits commissions with her broker based on 65 – 35 in favor of the salesperson. How much commission does the salesperson receive?
- A. \$11,375
 - B. \$5,687.50
 - C. \$8,750
 - D. \$3,062.50
10. What is the total depreciation deduction on residential income property purchased for \$165,000 including land valued at 20% of the total price if the law requires residential income property to be depreciated over 27.5 years and the owner kept the property for 11 years?
- A. \$99,000
 - B. \$66,000
 - C. \$52,800
 - D. \$79,200

MULTIPLE CHOICE - MICHIGAN RULES AND REGULATIONS

MULTIPLE CHOICE - MICHIGAN RULES & REGULATIONS

1. Which of the following is not a purpose of the Land Division Act?
 - A. So that the size of the divided parcels of land will not be too large to be served with enough streets, roads, and adequate drainage and sewers.
 - B. So that the price of the sold lots would not inflate beyond the CPI.
 - C. So that when the land is bought and sold, people could accurately and upon the proper surveys, tell the boundaries of their land and be able to use accurate legal description.
 - D. So that the land may be properly divided and laid out.
2. Under the Land Division Act, property up to the size of 10 Acres can be divided into 4 parcels. How many splits are allowed for each additional 10 acres?
 - A. 3
 - B. 2
 - C. 1
 - D. 4
3. If the monthly rent is \$600/m, what is the most amount of money a landlord can charge a tenant to move in?
 - A. \$1,500
 - B. \$900
 - C. \$600
 - D. \$2,100
4. A landlord charging a deposit must inform the tenant of his obligation to notify the landlord of a forwarding address within _____ days after vacating.
 - A. 4
 - B. 30
 - C. 7
 - D. 45
5. In regards to construction of new condominiums, a purchase agreement is not binding until nine (9) business days after developer delivers condominium documents to purchaser. Which of the following is not required?
 - A. Evidence of minimum 2 year warranty on construction
 - B. Condominium Buyers Handbook
 - C. Copy of purchase and escrow agreements
 - D. Recorded master deed with attached by-laws and subdivision plans
6. Interval ownership of property is reflected in which of the following?
 - A. Timeshare
 - B. Lifetime stock ownership in a corporation
 - C. Reoccurring annual lease
 - D. Life estate
7. A licensee is selling vacant home site in an area that does not have municipal sewers. Which of the following is true?
 - A. Vacant lots may not be sold unless they are served with municipal sewer and water
 - B. Money in the amount of 10% of the purchase price must be held in escrow until the property is served with municipal sewer and water
 - C. The purchaser is responsible for connecting the property to municipal sewers before beginning construction
 - D. The sale should be made contingent on a percolation test that would be acceptable to the health Department
8. Which of the following is true with regards to the Michigan condominium act
 - A. For new and existing condominiums, the purchase agreement is not binding until nine business days after developer delivers condominium documents to the purchaser
 - B. Condominium documents must be delivered to the purchaser including the recorded master deed as well as information about the real estate company that will be holding the deposit
 - C. Recorded master deed, bylaws, purchase and escrow agreement, condominium buyers handbook and disclosure statement are all documents that must be delivered by the developer to the purchaser

MULTIPLE CHOICE - MICHIGAN RULES AND REGULATIONS

- D. If a buyer signs a purchase agreement on new construction and is not given necessary documents, buyer can withdraw from the purchase agreement within three business days
9. All of the following are true with regards to MSHDA except:
- A. Provides financing for low and moderate income households
 - B. Borrowers must occupy property as principal residence
 - C. Money is available for purchasing or refinancing
 - D. Monies available for existing homes or new construction
10. Which of the following statements are acceptable under the antitrust act
- A. Everyone charges the same commission rate
 - B. The MLS only accepts a minimum ninety-day listing
 - C. This is our market area. Tell him to stay in his own territory
 - D. Our company pays a 25% referral fee if you send us business
11. A licensee happens to be in a meeting with other agents from other companies who appear to be discussing fixing their commissions. In order for the licensee to be in compliance with antitrust laws what must she do?
- A. Express disagreement with what is going on and immediately leave the meeting
 - B. Discuss issues with other agents and inform the broker of what happens and let the broker decide
 - C. Discuss the issues with other agent but let them know that what is going on may be in violation of the antitrust laws
 - D. Remain quiet at the meeting
12. The best indication as to whether a salesperson is working as an independent contractor or not is?
- A. The type of real estate being sold such as residential or commercial
 - B. The amount of control the broker has over the agent as far as working hours
 - C. Whether the salesperson is required to wear a certain color jacket or place a car sign
 - D. Whether the salesperson must attend weekly meetings with the broker
13. Under the Michigan right to Farm act all of the following are true except:
- A. A farm operation shall not be found to be a public nuisance if the farm operates under general accepted practices
 - B. A farm operation shall not be found to be a public nuisance if it existed before a change in land-use within 1 mile of the boundaries of the farmland
 - C. A seller of property located in the vicinity of a farm operation must disclose that fact on the seller's disclosure statement
 - D. If a local ordinance passes that would make the farming operation unacceptable in the area, the local government can apply the new ordinance to the existing farmers shut them down.
14. With regards to condominium conversions, which of the following is inapplicable?
- A. Lease extensions must be offered to occupants over age of 65 years
 - B. Lease extensions must be offered to occupants with specific disability recognized by state income tax law
 - C. Law requires any person living on premises to purchase the unit
 - D. Law covers conversion of any building (residential use only) from rental to condominium ownership if it has six (6) or more rental units.
15. What is the total amount of transfer tax due to the state and county if the purchase price was \$45,750
- A. \$393.45
 - B. \$387.00
 - C. \$395.60
 - D. \$337.50

MULTIPLE CHOICE - MICHIGAN RULES AND REGULATIONS

Feedback: $3.75 + .55 = 4.30$ per 500 of the price. 45,750 is rounded up to 46,000 $\div 500 \times 4.30 = 395.60$

16. Which of the following is NOT true about the broker's trust fund?
- A. Salespeople may never be allowed to sign checks on the trust fund.
 - B. Cosignatories may be used; an individual who is not a broker or associate broker may be authorized to sign checks drawn against the trust account only if his/her signature is accompanied by the signature of a broker or an associate broker.
 - C. The trust account must be held with a financial institution in a non-interest bearing demand account.
 - D. A broker may maintain more than one trust account and may have up to five hundred (\$2,000) dollars of his own money, in each trust account.
17. Which of the following is not true about the broker's place of business?
- A. A broker may not change an address of a place of business without first notifying the Department.
 - B. A branch office that is more than twenty-five (25) miles from the city limit where the broker's main office is maintained must be under the direct supervision of an associate broker.
 - C. A broker must maintain an actual physical location where business is conducted and records are kept.
 - D. It can be anywhere in the US.
18. Which of the following violates the rules with regards to licensee's responsibility in handling offers to purchase?
- A. Failing to provide a copy of the rejected offer or counteroffer to all parties
 - B. Failing to promptly present a verbal offer the seller
 - C. Failing to purchase a title insurance for the buyer
 - D. Failing to promptly present an offer to purchase because another offer may be coming in a day or two
19. An offer to purchase is signed by all parties and a second offer comes on that property. The licensee's duties in presenting the second offer must comply with the following:
- A. If an offer is already signed by all parties, the licensee does not have a duty to present more offers unless instructed by the seller
 - B. Future offers must be presented and accepted as backup offers
 - C. The seller may legally withdraw from the accepted offer if the second offer has better price and terms
 - D. The licensee is required to present all offers even if one offer has already been accepted
20. With regards to a service provision agreement which of the following is true?
- A. A listing agreement shall have a definite expiration date or an anti-discrimination clause
 - B. A net listing is illegal unless the licensee is receiving a reasonable amount of money as commission
 - C. The agreement shall not require the client to send a written cancellation notice upon expiration of service term
 - D. In the event that the agreement does not have a definite expiration date, it may be automatically renewed
21. With regards to closings, a licensee shall have which of the following duties?
- A. Either the salesperson or the broker must attend the closing in person
 - B. A closing statement must be prepared by the broker and signed by both buyer and seller
 - C. Any last-minute changes at the time of closing must be reflected in a written amendment signed by all parties
 - D. Supervision of the closing shall be done by the broker or it may be delegated to an officer of the title company

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22. With regards to deposits, which of the following is applicable?
- A. The broker shall maintain a trust account to deposit all monies received from buyers and tenants alike
 - B. A salesperson receiving money must turn it over to the employing broker as soon as possible unless another offer is expected to arrive within three business days
 - C. Salesperson receiving a deposit check payable to himself must sign the back of the check and immediately handed to the employing broker
 - D. A broker must deposit the earnest money in the trust fund no more than 2 banking days after receiving notice that an offer to purchase is accepted by all parties
23. An offer to purchase is signed by the buyer on Monday and accepted on Tuesday, the broker must deposit the earnest money deposit into his trust fund no later than
- A. Tuesday
 - B. Wednesday
 - C. Thursday
 - D. Friday
24. All of the following are true with regards to handling deposits except
- A. All monies received from others in connection with the real estate activity must be deposited in the broker's trust account. Rental income as well as security deposits from tenants must be deposited in a separate management account
 - B. A salesperson receiving money must turn it over to her employing broker immediately
 - C. A salesperson shall not accept a deposit check made out to the salesperson. All checks must be written to the order of the broker
 - D. A broker must deposit earnest money in her trust account no more than three banking days after receiving notice that an offer to purchase is accepted by all parties
25. With regards to trust accounts all of the following are true except
- A. They are also known as escrow accounts and it must be maintained at a financial institution in a non-interest-bearing demand account
 - B. A broker may maintain more than one trust account and may have up to \$2,000 of his own money in each account
 - C. Checks drawn must be signed by a broker or associate broker
 - D. Salespeople are not allowed to sign checks on the trust fund
26. Under what circumstances can a broker not be responsible for an earnest money deposit associated with the sale of the property
- A. If he releases his liability to the money and the purchase agreement
 - B. If he deposits the money in the company general fund instead of the trust fund
 - C. If he turns the deposit over to the seller and let the seller control it
 - D. If the parties agree that the deposit will be held by a third party such as a title company and both sign an agreement to that effect
27. With regards to place of operation which of the following is applicable?
- A. A broker may do business from an actual place or instead may use a website for people to reach him
 - B. A broker may not have a branch office unless it's managed by an associate broker
 - C. A broker may not have a branch office more than 25 miles from the city limit where the broker's maintain his main office
 - D. Branch offices must be licensed by the Department and the broker may not change an address of a place of business without first notifying the department
28. With regards to record-keeping all of the following are true except
- A. The broker must maintain a system that consolidates all monies coming into the possession of the broker as well as all monies paid out

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- B. The broker must have a system that segregates one transaction from the other
- C. A broker who receives deposits from the public will not need a bookkeeping system if he can delegate that duty to his agents
- D. The broker's bookkeeping system must show the amounts, dates, purpose, and the names of the parties paying or receiving funds
29. A licensee is subject to disciplinary action if s/he commits all of the following violations EXCEPT:
- A. Charging the client more than the maximum legal commission
- B. Changing the business location (by the broker) without notifying the Department
- C. Failure to account for money coming into the licensee's possession, which belongs to others
- D. Acting for more than one party in a transaction (dual agency) without the knowledge and written consent of the parties
30. Which of the following is a violation of the Trust Fund Requirements?
- A. A broker keeping track of the amount of money received into the fund but NOT the amounts paid.
- B. A real estate broker depositing funds into the trust account within (2) banking days after the signing of a purchase agreement by all parties.
- C. Maintaining the broker's personal funds in a separate account in addition to the trust account
- D. A real estate salesperson immediately turning over money received into the hands of the broker.
31. Which of the following is true with regards to investigations that are conducted by the department
- A. The department may seek a subpoena from the Department of Atty. Gen. to force an un-cooperating broker to produce books and files
- B. The department must first receive a complaint against the licensee before it starts an investigation
- C. Once a complaint is filed with the department, the department will seek an injunction to revoke the license until the results of the investigation are determined
- D. The department may not seek an order to summarily suspend a license until after he had been found responsible for a violation
32. Which of the following penalties can be assessed against an individual who is selling real estate *without* a license?
- A. Up to one year incarceration
- B. Suspension or revocation of license
- C. A \$10,000 fine per violation
- D. Requiring him to have a CPA to balance his books
33. Which of the following is true with regards to the hearings that are conducted by the department?
- A. In the event that the initial investigation shows evidence of a possible violation, the licensee must attend a formal hearing
- B. A licensee may settle a complaint at an informal hearing or may choose to have her case heard by an administrative law judge at a formal hearing
- C. Once an investigation reveals a possible violation, the Department of Atty. Gen. will indict the licensee
- D. A licensee may choose to have both a formal and informal conference with the department and then choose which hearing results in a more favorable outcome.
34. Upon receiving a notice of investigation the licensee must
- A. Wait for a subpoena in order to start cooperation with the Department
- B. Make his books and records available if an investigator requested them
- C. Choose a formal hearing

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- D. Choose an informal hearing to settle the complaint
35. All of the following can result from an initial investigation of the licensee except
- A. Considering the complaint to be unfounded
 - B. An order to summarily suspend the license
 - C. An order to cease and desist from a violation
 - D. An order to revoke the license
36. Which of the following is considered to be a violation
- A. Acting as a dual agent
 - B. Working with an investor to buy commercial property without providing an agency disclosure form
 - C. A broker failing to return a salesperson's license within three business days after being notified that the salesperson has changed employment
 - D. A broker failing to deposit funds into the trust account within two banking days after the signing of a purchase agreement by all parties
37. With regards to the handling of money, which of the following is considered to be a violation?
- A. A broker deposit security deposit money received from tenants in a management account
 - B. A broker depositing earnest money deposit in a personal account but maintaining accurate records of the funds belonging to the public
 - C. Depositing funds received from the public into the trust account within two banking days after the signing of a purchase agreement by all parties
 - D. A real estate salesperson paying money received from the public to the broker instead of depositing the funds into the company trust fund
38. Which of the following is considered to be a penalty that would be assessed against a salesperson
- A. Requiring the salesperson to be bonded for ten thousand dollars and for five years
 - B. Suspending the license of a salesperson who cannot afford to pay restitution
 - C. Requiring a salesperson to pay a civil fine of \$10,000 for refusing to maintain accurate books and records of the company trust fund
 - D. Ordering a salesperson to serve 12 months in jail for violating administrative rules
39. Which of the following is true with regards to license renewal
- A. Due by October 31 of each year
 - B. Based on a three-year renewal cycle from the effective issuance date of the individual license and must be accompanied by 6hr continuing education
 - C. Based on a three-year renewal cycle including 6hr continuing education for each year the license was active
 - D. Based on a three-year renewal cycle by December 31 of each year
40. Which of the following is true with regards to license transfer
- A. The former broker has five days to return the license when informed that a licensee requests a transfer
 - B. The pocket card must be signed by the former broker as well as the new broker to create a 45 day temporary license
 - C. A salesperson may transfer but not an associate broker
 - D. A salesperson must first receive written approval from the Department before starting to work for the new broker
41. Which of the following is a violation of advertising requirements?
- A. Broker Larry Adams is licensed as Green Valley Realty and advertises as Green Valley Realty without mentioning his name
 - B. A broker is required to give the definite impression in the ad that the advertiser is a broker and can be reached at an actual place

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- C. A broker must not advertise using a different name other than the name that the broker is licensed under
- D. A broker advertises his principal residence as a private party
42. Which of the following is considered to be a violation with regards to advertising of property by a salesperson
- A. A salesperson may not privately advertise property that she personally owns unless it is her principal residence
- B. A salesperson may not advertise to lease or rent property as a private individual unless she is the owner of the property
- C. Salesperson may not advertise owned rental property unless the sale is done through a licensed broker
- D. A salesperson advertising listed property must state either her broker's name or her own name based on client's instructions
43. All of the following are considered legal advertising practices except
- A. A salesperson must only advertise under the supervision of the employing broker and in the name of the broker
- B. A broker may not advertise to buy or sell real estate unless he gives the public a definite impression that the advertiser is a broker and not a private party
- C. Selling property owned by a licensee requires written disclosure of that fact before an offer to purchase is signed
- D. Advertising the licensed name must be accompanied with both telephone number and street address
44. Which of the following is true with regards to a licensee acquiring interest in property
- A. A licensee may not purchase property that is listed with her firm
- B. A licensee may not purchase property from the public without first disclosing that she is in fact a licensee
- C. A licensee may not purchase listed property and receive a commission on it
- D. A licensee receiving a commission on property that she is purchasing must disclose that information in writing any time before closing
45. With regards to purchasing property by licensee who will be receiving a commission for other services, which of the following is true?
- A. A licensee who is entitled to receive a real estate commission as a result of property sale may not receive additional fees for providing additional services
- B. A licensee who is entitled to receive a real estate commission as a result of property sale may collect additional fees for providing other services after satisfying RESPA requirements and getting written consent from all parties in the transaction
- C. A licensee may receive additional fees for providing other services above and beyond the sale of property but that is limited to receiving a fee for selling a home warranty
- D. A licensee may receive additional fees for providing other services in addition to the real estate commission. RESPA requirements as far as kickback prohibition does not apply as long as all parties in the transaction give written permission
46. All of the following requires a Real Estate license by a person except:
- A. Helps a person to lease her property at no charge
- B. Lists or offer or attempts to list
- C. Buy or offer to buy
- D. Sell or offer to sell
47. A person is considered to practice the real estate business as a principal vocation if he does all of the following except:
- A. Holds himself / herself out to the public as being principally

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- engaged in the real estate business.
- B. Sells a commercial building that he owns for a price in excess of Ten Million Dollars
- C. Dedicates more than half of his/her working time to the sale of real estate, or more than fifteen hours a week, whichever is less, during any consecutive six month period
- D. Enters into more than five real estate sales in a twelve-month period
48. All of the following are considered legal practice for a salesperson except
- A. Conducting a market analysis for a fee
- B. Negotiate the lease on a newly constructed shopping center
- C. Purchasing property for his own account with the intent to re-sell
- D. Working as a consultant for a fee
49. An unlicensed individual will be considered to be practicing real estate as a principal vocation if she
- A. Enters into five real estate sales within a 12 month period
- B. Generates most of her income of rental property that she owns
- C. Dedicates more than half of her working time to the sale of real estate during a consecutive six month period
- D. Buys a foreclosed house, fix it up, and resells it for a profit
50. Which of the following may be exempt from licensing requirements
- A. A licensed builder who usually buys and sells between 10 to 15 bank owned properties each year directing his crew to remodel them and then sell all of them
- B. Attorney-at-law who negotiates sales between his clients and potential buyers
- C. And attorney-in-fact acting under power of attorney
- D. A tenant receiving up to one month rent for referring another tenant in the same building
51. What is the main difference between a broker and an associate broker?
- A. A broker supervises the company while an associate broker is hired for the purpose of recruiting and training salespeople
- B. A broker is responsible for maintaining trust funds while an associate broker is hired as a branch manager
- C. An associate broker is strictly hired to supervise branch offices
- D. An associate broker is employed by a broker
52. If the broker's license of an entity is revoked, what happens to the licenses of those employed by the entity
- A. All licenses of associate brokers and salespersons will be revoked as well
- B. The license of the associate broker is revoked but the salespersons may transfer to another broker
- C. The licenses of all the associate brokers and salespersons are suspended
- D. The revocation of the entity's license has no effect on the associate brokers and salespersons
53. With regards to the license and pocket card requirements
- A. A licensee must have the pocket card on his person at all times
- B. The license must be presented to a homeowner during all showings
- C. License remains in the custody of the broker while the pocket card remains with the licensee
- D. Either the pocket card or the business card can be shown to a homeowner who requests legal proof that an individual is actually real estate licensee
54. With regards to a non- resident license
- A. The state of Michigan will license an applicant from a different state upon showing proof that he is licensed in his home state
- B. A licensee who wishes to receive the Michigan license must meet all licensing requirements
- C. A non-resident may be automatically licensed in Michigan only if his state has reciprocity with Michigan

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- D. A "consent of service" must be signed by non-residents otherwise the applicant must obtain all necessary education and pass an exam
55. Exemption to licensing include all of the following except:
- A. A salesperson working part-time
 - B. Attorney in fact acting under power of attorney
 - C. An attorney at law, acting as an attorney at law
 - D. A licensed builder who builds and sells new single family homes, two units, three units, or four unit family dwellings
56. Which of the following are duties of the real estate Board?
- A. Issuing a license
 - B. The interpretation of licensing requirements
 - C. Processing license renewals
 - D. Collecting renewal fee
57. Which of the following is not a duty of the Board?
- A. Recommending policy to the Federal Reserve System
 - B. Setting and adjusting the minimal standards of practice
 - C. Recommending approval for educational courses
 - D. Recommending to the Department to issue or renew a license
58. Which of the following is true with regards to the board of brokers and salespersons
- A. They meet three times a year or as often as necessary
 - B. They are elected by the real estate licensees
 - C. They promulgate rules to set and adjust the standards of practice
 - D. They aid the department investigations but may not assess penalties
59. Which of the following is true with regards to the duties of the department and the board
- A. The board issues and renews licenses but the department can order penalties
 - B. Both the board and the department participate in investigating licensees
 - C. The department may assess a penalty yet the board can only evaluate educational courses
 - D. The board is headed by the director while the department is headed by a chairperson
60. Real estate licensees in Michigan are licensed under the
- A. Michigan occupational code
 - B. Michigan licensing act
 - C. The real estate broker and salesperson code
 - D. Public act 332 of 1978
61. Which of the following is true?
- A. If a salesperson mishandles money received from a buyer, both the salesperson and the broker may be subject to investigation.
 - B. If a salesperson places a misleading ad in the newspaper, the broker is not responsible, provided that the salesperson wrote the ad himself.
 - C. A broker may not have a branch office more than 25 miles away from the city limit where her main office is located.
 - D. Licensee must carry a pocket card all the time.
62. The following person must be licensed to perform a real estate service and receive compensation:
- A. One who specializes in selling coin-operated car washes
 - B. Attorney-in-fact
 - C. A receiver
 - D. An executor or administrator
63. All of the following are true regarding a non-living entity acting as a broker except:
- A. It must have at least one principal associate broker
 - B. If the only associate broker in the entity lost his license, the entity cannot continue to operate unless another associate broker steps in to take responsibility for company operations
 - C. A non-living entity licensed as a broker must consist of a least one associate broker and one salesperson

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- D. A non-living entity licensed as a broker may be a corporation, partnership, joint venture, etc.
64. Which of the following is prohibited by licensing rules?
- A. Buying dinner for a friend in an effort to keep communication channels open in case he may decide to sell his hotel.
 - B. Sending flowers to a mortgage officer that may refer clients back to the licensee someday
 - C. Refusing to negotiate for the sale of property unless the client pays a nonrefundable retainer fee.
 - D. Asking an unlicensed friend to help you negotiate a transaction and promising to pay her a fee.
65. All of the following are true regarding advertising by licensee except:
- A. A broker is free to advertise his principal residence for sale privately.
 - B. A broker advertising his own investments for sale must give the definite impression that the advertiser is a broker.
 - C. A salesperson renting her own investments may advertise privately.
 - D. A salesperson selling his/her principal residence is free to advertise it as a private party
66. After listing property for 3 months, the licensee decides to buy it herself. Which of the following is true regarding this situation?
- A. Wait until the listing expires and buy directly from the owner to save the commission the owner would have paid to the real estate company, and caution the owner not to mention this to the real estate broker.
 - B. Wait until the last day the listing expires, then approach the seller to show him that his property is very hard to sell; therefore, he should lower the price and possibly sell it to the licensee.
 - C. Licensee should directly approach the seller and ask him if he would sell it to the licensee for a certain price, and indicate also that the licensee may be receiving a part of the commission paid by the seller to the real estate company - (All disclosures must be in writing).
 - D. It is better to send a friend to the seller and buy that property, since the licensee could advise the friend as to the seller's bottom line. Later, the friend could deed the property back to the licensee and that should not cause any hard feelings.
67. Sally, an ethical licensee, was notified by an owner asking to list his property for \$160,000. Upon inspecting the property, Sally felt that the property should be sold for \$225,000 and the seller cheerfully listed it for the higher price. Ninety days later, the seller accepted a \$220,000 offer and told Sally that he will gladly pay her a \$5,000 bonus above and beyond her commission. Which is true regarding this additional bonus?
- A. Any bonuses above and beyond the normal commission stated in the listing are paid and kept by the broker; the salesperson may not share any of that amounts, according to state rules and regulations.
 - B. The additional \$5,000 must be added on to the commission and then paid to Sally through her broker.
 - C. It is legal for Sally to accept the \$5,000 bonus directly from the seller as long as the check is made payable to her personally.
 - D. It is illegal for a licensee to accept any additional commission from the seller once the amount is set in the listing agreement.
68. Sally, who works for Sunshine Realty, listed a house that was sold by Max, who works for Green Valley Realty which is headed by broker Peggy. Max's buyer did not wish to sign a buyer's broker agreement with Green Valley Realty, and the agency disclosure that Max submitted to the seller when he met with him to present the offer showed that he was a seller's agent. Which of the following is true?
- A. If Max commits fraud, his buyer could sue Max, his broker Peggy, Sally's broker, and the seller; because it appears that Green Valley Realty is a sub-agent of the

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- listing broker; therefore they are both representing the seller.
- B. Max's broker, Peggy, has the final responsibility at the closing to provide a signed closing statement to the parties and to make sure that no errors are committed throughout the process.
- C. At closing, Max's broker, Peggy, will directly receive 50% of the commission from the seller, she will then pay Max's share of the commission.
- D. Throughout the whole process of showing the house and negotiating a sale, Max should have tried to satisfy the buyer by getting him the lowest possible price for the house and recommending conditions in the offer that would best serve the buyer, because if it wasn't for the buyer's money, a sale would not have taken place.
69. All of the following are indications that the salesperson is working as an independent contractor except:
- A. The broker withholds payroll taxes from her paycheck.
- B. She chooses her own time and number of hours to work
- C. She gets paid strictly by commission when she produces sales.
- D. She has a written contract with the broker indicating that she is an independent contractor, not an employee.
70. All of the following are true regarding paying commissions and referral fees except:
- A. If a salesperson receives a lead from a salesperson in another company, she must pay that salesperson a split directly from her commission.
- B. Business leads between Michigan brokers may be sent and received and referral fees may be paid as well.
- C. A Michigan broker may send a referral out-of-state and receive a fee from the out-of-state broker.
- D. A broker licensed in Michigan may receive a referral from a broker operating in another state.
71. A non-licensed assistant helping a salesperson may do all of the following except:
- A. Occasionally show houses to the salesperson's buyers when he is busy with other customers
- B. Take telephone messages for the salesperson
- C. Help registering incoming buyers into an open house held by the salesperson
- D. Address "thank you" letters to past clients
72. Before presenting an offer to purchase, a salesperson receives another offer on the same property just before she leaves the office to meet with the seller. On her way to the appointment, she is contacted on her mobile phone to be told that another offer will be written on the same property later that day. Which one of the following choices is correct for the salesperson to do?
- A. Present the offer that came first, present the second offer if the first offer is rejected, and ask the seller not to decide because a third offer may be coming.
- B. Present the two offers she has at the same time unless one of the offers has a contingency that the salesperson believes cannot be met; then present only the offer she feels has a chance of acceptance.
- C. Present the two offers that she already has, but inform the seller of a possible third offer later on.
- D. Wait for the third offer to come, and then present all three offers at the same time.
73. A deposit check made out by a buyer to the name of the salesperson must:
- A. Be certified by the bank to make sure funds are available, then immediately given to the broker.
- B. Not be accepted.
- C. Be endorsed by the salesperson and given to the broker.
- D. Be cashed and turned over to the broker immediately.
74. An offer is signed by the buyer and deposit is handed to the salesperson on Monday. On Tuesday, broker is notified that the seller

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- has accepted the offer. The deposit must be at the bank no later than
- A. Wednesday
 - B. Thursday
 - C. Tuesday
 - D. Monday
75. Which of the following is true regarding a real estate transaction?
- A. Due to the complexity of real estate transactions, it is permitted by the Department that parties agree on changes through telephone or video-recorded conference that could be referred to at a later date.
 - B. Changes decided upon by buyer and seller must be done outside the closing and preferably after the closing date, where the broker is not involved.
 - C. If an offer to purchase is signed by all parties and later the price must be changed, an "amendment" is signed by the parties reflecting the change.
 - D. Once an offer to purchase is signed by all parties, they have no right to make any changes.
76. After obtaining twelve listings, David, a salesperson, decided to resign his position with XYZ Realty and transfer to another city to follow his wife who was offered a new position as a computer programmer for a major corporation. Which of the following is true regarding the listings he had obtained?
- A. The listings must stay with the former broker because they belong to the broker anyway. The former broker will have to pay a commission when the listings are sold directly to David only if David's employment contract with the former broker dictates that.
 - B. Listings must stay with the former broker but state law requires the former broker to pay the selling commissions to David if those listings were sold.
 - C. David could take the listings with him to the new company, provided that both brokers sign an agreement to assign the listings.
 - D. As long as David finds another job with another real estate company in Michigan, he has the right to take
- the listings with him, but he must be sure he can service those listings.
77. When a licensee fails to meet license renewal requirements by the legal deadline. Which of the following may occur?
- A. License is revoked
 - B. License is suspended
 - C. License lapse one day after deadline
 - D. Licensee may continue to operate as long as he has met his continuing education requirement
78. Sally Jones is a licensed real estate agent. She comes and goes as she pleases, gets paid strictly by commission but is required to get her broker's permission before negotiating a commission rate and before submitting any advertising to the media. Which of the following applies to Sally?
- A. Sally must match the deduction on her paycheck for the Social Security (FICA) deduction
 - B. Sally will be receiving a W-2 form to file your income tax returns every year
 - C. Sally needs to file her income tax returns based on a 1099 form
 - D. Sally can expect the company to give her paid vacations and health insurance benefits
79. Which of the following takes place when a salesperson begins work with a broker
- A. The commission split is negotiated
 - B. The cities and neighborhoods that the salesperson will be working at is assigned
 - C. Policy and procedures manual including an employment contract is provided to the salesperson
 - D. The department is notified of the estimated length of employment that the broker anticipates for that salesperson
80. A broker hires a salesperson and arranges for her to receive a \$300 draw every week until she starts selling real estate and upon each closing the amount of the draws are deducted from the commissions that the salesperson is supposed to receive based on a percentage of the selling price. This arrangement indicates that the salesperson is a(an):
- A. Employee
 - B. Independent contractor

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- C. Branch manager
D. Assistant of an agent
81. A broker wishes to become a salesperson. What is the requirement?
- A. Attend a 40 hour salesperson pre-license course and take the salesperson's exam but must maintain both licenses at the same time
 - B. Apply for a salesperson's license and maintain both broker and salesperson license together
 - C. Apply for an associate broker's license which is the same as a salesperson
 - D. Surrender the broker's license to the department and obtain a salesperson's license
82. According to the Dodd Frank Act. An owner who wishes to finance the sale of his own property must employ the services of a loan originator unless he qualifies under an exemption. All of the following are exemptions under the law except:
- A. Seller is not the builder of the property
 - B. Seller does not use negative amortization
 - C. The loan interest rate is fixed for at least five years
 - D. Seller does not finance more than five properties within a 12 month period
83. A 100 acre parcel was divided into four (10) acre parcels, and one 60 acre parcel. How many years would someone have to wait before splitting the 60 acre parcel without creating a subdivision?
- A. 5 years
 - B. 10 years
 - C. 2 year
 - D. 25 years
84. An owner of 30 acres wishes to create as many splits as possible under the law without having to record a subdivision, which of the following split can he create as the maximum allowed by law?
- A. Six-5 acre parcels
 - B. Four parcels – 7 acres each and Two-1 acre parcels
 - C. One parcel-18 acres, another 6 acre parcel and six more parcels-1 acre each
 - D. Four-7.5 acre parcels
85. Salesperson accepts a deposit check payable to him personally, cashes the money and spends it. Who is liable?
- A. The salesperson
 - B. The broker
 - C. Both salesperson and broker
 - D. No one is liable as long as the money is returned
86. With regards to a prize that a broker wishes to offer to clients, which of the following is legal?
- A. A drawing must be conducted under the supervision of the department
 - B. A drawing must be fair and the broker cannot secretly award the prize to one of his friends instead of a client
 - C. The prize must be provided by the broker to every client without a drawing
 - D. A drawing can only be conducted in conjunction with a charity
87. Broker fails to renew license by October 31st of the renewal year. When does the license lapse?
- A. October 31st
 - B. November 1st
 - C. December 31st
 - D. January 1st next year
88. Which of the following is true regarding the broker's practice?
- A. Deposits must be handed over by salespeople to broker no later than 2 banking days after the signing of the PA
 - B. Closing statement must be provided by the title company

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- and signed by broker and salesperson
- C. A broker may choose to have more than one trust fund
- D. Advertising may not list the name of the salesperson
89. All of the following usually requires a service provision agreement except:
- A. Advertising the property
- B. Accepting an earnest money deposit on behalf of a seller
- C. Showing the property
- D. Contacting the assessor's office for information on the property
90. With regards to the closing, which of the following is a listing broker's duty?
- A. Sign closing statement and provide copies to buyer and seller
- B. The closing statement must be prepared by the title company
- C. Attend the closing in person
- D. Both buyer and seller must sign the closing statement
91. Which of the following is considered to be an illegal conversion of funds by a broker?
- A. Broker receives a commission and places it into his trust fund instead of his general fund
- B. Broker deposits \$5000 into the trust fund but two days before closing he transfers \$3000 into his general fund to pay the office rent
- C. Broker deposits a \$2500 deposit into the trust fund 10 days after receiving it
- D. Broker delivers a deposit from his trust fund to the closing agent on the day of the closing
92. Which of the following is not made a part of a residential lease under Michigan landlord – tenant relationship act
- A. Consideration provided to the landlord
- B. 2.5 months deposit
- C. Address of the premises
- D. Lease term
93. Which of the following penalties can the board of real estate brokers and salespersons assess?
- A. Exemplary/ punitive damages for slander of title
- B. Reimbursement of court cost and legal fees
- C. Censure
- D. Indictment
94. Kimberly is attending a meeting with licensees from different companies to discuss certain MLS issues. Which of the following statements, if made by the other agents, would not cause Kimberly to immediately express disagreement and leave the meeting?
- A. The MLS should have a rule against lowering commission rates
- B. The MLS should only accept 6 month listings
- C. Nobody should work on his/her listings because of the low rates s/he charges
- D. We cooperate with other brokers but do not always share commissions
95. Which of the following can become an associate broker?
- A. A Corporation
- B. LLC
- C. An individual Broker
- D. A partnership
96. John was fired after complaining that the soap company that he used to work for was mixing chemicals and dumping the waste into the sanitary sewers. Which of the following has the right to take action against the company for ruining the environment?
- A. John
- B. Any environmental group
- C. Anyone
- D. The state

ANSWERS TO MULTIPLE CHOICE QUESTIONS

ANSWERS - PROPERTY OWNERSHIP

1. B
2. C
3. D
4. C
5. B
6. B
7. D
8. B
9. D
10. C
11. D
12. C
13. C
14. A
15. A
16. D
17. C
18. C
19. B
20. C
21. D
22. C
23. C
24. C
25. C
26. B
27. D
28. C
29. D
30. D
31. C
32. C
33. C
34. A
35. A
36. C
37. C
38. C
39. D
40. A
41. D

ANSWERS- LAND USE CONTROLS

1. B
2. C
3. C
4. D

5. D
6. C
7. C
8. A
9. B
10. B
11. D
12. D
13. A
14. B
15. D
16. C
17. B
18. A
19. A
20. C
21. B
22. C
23. A
24. C
25. D
26. B
27. A
28. A
29. A
30. C
31. C
32. B
33. C

ANSWERS- VALUATION & MARKET ANALYSIS

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

18. A
19. D
20. D
21. B
22. C
23. A
24. B
25. B
26. D
27. A
28. D
29. C
30. B

ANSWERS TO MULTIPLE CHOICE - FINANCING

1. D
2. D
3. D
4. D
5. C
6. D
7. C
8. B
9. B
10. D
11. C
12. D
13. C
14. C
15. C
16. C
17. A
18. C
19. B
20. C
21. A
22. D
23. B
24. C
25. D
26. A
27. D
28. B
29. B
30. A
31. A
32. C
33. C
34. B
35. D

36. D
37. B
38. A
39. A
40. A
41. A
42. A
43. C
44. B
45. C
46. C
47. D
48. B
49. B
50. B
51. A
52. D
53. D
54. B
55. D
56. A
57. A
58. C
59. D
60. D
61. B
62. B
63. B
64. D
65. C
66. D
67. C
68. A
69. C

ANSWERS- PRINCIPLES OF AGENCY

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

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 17. C
- 18. D
- 19. B
- 20. D
- 21. B
- 22. A
- 23. C
- 24. D
- 25. D
- 26. B
- 27. C
- 28. C
- 29. A
- 30. D
- 31. C
- 32. D
- 33. B
- 34. B
- 35. A
- 36. C
- 37. D
- 38. C
- 39. A
- 40. C
- 41. C
- 42. C
- 43. B
- 44. A
- 45. D

**ANSWERS -
PROPERTY
CONDITION &
DISCLOSURE**

- 1. B
- 2. D
- 3. D
- 4. B
- 5. C
- 6. D
- 7. C
- 8. C
- 9. D
- 10. B
- 11. C
- 12. A

**ANSWERS -
CONTRACTS**

- 1. B
- 2. B
- 3. D
- 4. C
- 5. D
- 6. D
- 7. C
- 8. D
- 9. C
- 10. C
- 11. D
- 12. C
- 13. D
- 14. B
- 15. C
- 16. C
- 17. C
- 18. D
- 19. B
- 20. D
- 21. B
- 22. D
- 23. C
- 24. D
- 25. C
- 26. C
- 27. C
- 28. C
- 29. A
- 30. A
- 31. D
- 32. C
- 33. A
- 34. D
- 35. B

- 36. D
- 37. C
- 38. B
- 39. B
- 40. C
- 41. C
- 42. A
- 43. C

**ANSWERS -
LEASING**

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

**ANSWERS -
TRANSFER OF
TITLE**

- 1. C
- 2. D
- 3. D
- 4. D
- 5. C
- 6. C
- 7. B
- 8. D
- 9. C
- 10. D
- 11. C
- 12. D
- 13. C
- 14. D

- 15. B
- 16. D
- 17. C
- 18. A
- 19. D
- 20. C
- 21. C
- 22. C
- 23. D
- 24. D
- 25. D
- 26. B

**ANSWERS -
PRACTICE OF
REAL ESTATE**

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

**ANSWERS -
CALCULATIONS**

- 1. A
- 2. B
- 3. A
- 4. C
- 5. A
- 6. A
- 7. D
- 8. A
- 9. B
- 10. C

ANSWERS TO MULTIPLE CHOICE QUESTIONS

ANSWERS MULTIPLE CHOICE - **MICHIGAN** **RULES &** **REGULATIONS**

1. B
2. C
3. A
4. A
5. A
6. A
7. D
8. C
9. C
10. D
11. A
12. B
13. D
14. C
15. C
16. A
17. D
18. D
19. A
20. C
21. C
22. D
23. C
24. D
25. D
26. D
27. D
28. C
29. A
30. A
31. A
32. A
33. B
34. B
35. D
36. D
37. B
38. B
39. C
40. A
41. D
42. D
43. D
44. B
45. B
46. A
47. B
48. A
49. C
50. C
51. D
52. C
53. C
54. B
55. A
56. B
57. A
58. C
59. B
60. A
61. A
62. A
63. C
64. D
65. A
66. C
67. B
68. A
69. A
70. A
71. A
72. C
73. B
74. B
75. C
76. A
77. C
78. C
79. C
80. B
81. D
82. D
83. B
84. C
85. C
86. C
87. B
88. C
89. D
90. A
91. B
92. B
93. C
94. D
95. C
96. C

KEY POINTS FOR THE EXAM

1. A *freestanding* bookshelf = Chattel
A *built in* bookshelf = Fixture
2. AGREEMENT BETWEEN THE PARTIES = **THE CONTRACT IS THE KEY TO THE TRANSACTION**
IF THE CONTRACT IS NOT CLEAR, THE COURT WILL INTERPRET IT IN FAVOR OF THE BUYER

For example, a seller mentions in the purchase agreement that she is going to take the roses from her rose bush to her new home but she will leave the rose bed leveled for future plantings, the buyer will have to pay for the roses.
3. METES AND BOUNDS (Measures BOUNDARIES)
4. What legal description describes property through a series of distances and angular measurements?
= Metes and Bounds
5. If someone wants to build a subdivision, what do they have to do? A detailed plan is submitted to the local authority such as the planning commission for approval.
6. Anything recorded at the register of deeds must be NOTARIZED.
7. Section: 640 Acres
8. Acre: 43,560 Square Feet
9. Riparian Rights = Rights enjoyed by land owners whose land is located next to rivers, streams or inland lakes --- Remember "R" in Riparian standing for "River"
10. With Riparian Rights, owners have the right of reasonable use of water and own the property all the way to the middle of the stream or center of the lake that they are situated on.
11. What is the opposite of Erosion? Accretion
12. Mechanic's Lien [Construction Lien]: A person who furnishes materials and/or effort to improve land and is not paid by the landowner may place a lien on the property.
13. Special Assessments: Cost due for improvements performed by the local government such as installing city sewers or water, paving the street, etc.
14. LICENSE: Permission, of a personal and temporary nature, granted to enter someone's land for a particular purpose such as a license to fish or hunt.
15. You have an easement running *over your property*, that makes you the = SERVIENT estate
16. FEE SIMPLE = The BEST/HIGHEST type of ownership recognized by law
17. Which is true about a qualified fee estate? If the grantee (buyer) is not abiding by the restrictions set forth by the grantor (seller), the property may revert back to the grantor (seller).
18. Life Estate = Granted to a person (life tenant) for a lifetime.
19. Which is Owning in Severalty? = **An Entity** (Careful, don't pick LLC. or INC.)

KEY POINTS FOR THE EXAM

20. Tenants by the entireties could also be joint tenancy with survivorship.
21. John and Bob are Joint Tenants. John dies. What happens to property? It goes to Bob.
22. If the deed does not state a percentage of ownership, each of the grantees is presumed to receive: equal interest.
23. Somebody's roof starts to leak 3 months after they move into their new condo, who is responsible for paying for it to be repaired? The association.
24. You are said to own 100% of the AIR SPACE in your condominium.
25. In COOPERATIVES, what are given to owners to signify ownership? PROPRIETARY LEASES
26. EMINENT DOMAIN: The government's right to take private property for public use provided that taking is necessary and after payment of just compensation.

CONDEMNATION: Action through which Eminent Domain is accomplished when an owner does not voluntarily agree to relinquish ownership.
27. Somebody dies **with** a will and **with heirs**, what is impossible? ESCHEAT
28. POLICE POWER: Vested in government to make laws and regulations for the health, safety and welfare of the public.
29. SETBACK ORDINANCE (Building line, setback line): Distance from lot edge to where building is erected.
30. NON-CONFORMING USE: The use of the land that does not match the zoning law.
31. A gas station (commercial) owner is operating his business when the city makes an announcement that the area is now residential. What does he have to do? Nothing! He can continue to operate his business as usual.

BONUS QUESTION: What if he wants to sell his gas station? Will the new owner have to switch to residential? = HAVE THE BUYER TALK TO THE MUNICIPAL (CITY) DEPARTMENT THAT
REGULATES ZONING AND LAND USE.
32. If a piece of land is potentially contaminated, it is highly advisable to perform an environmental audit or an environmental site assessment on the property to determine if contamination exists.
33. Asbestos is **fire resistant**.
34. If the find asbestos in a public building, what would be the safest method of removal?: Encapsulation of asbestos can be safer than removal.
35. Special disclosure required for sale and rental of property that contains lead based paint as well as (EPA) Informational pamphlet.
36. Buyers are given a 10 day period to inspect the property for lead based paint.
37. Lead is found in paint, piping, and soil – **NOT in insulation**.
38. **Radon**: Colorless, odorless radioactive gas resulting from decay of natural radioactive substances.

KEY POINTS FOR THE EXAM

39. Private control on land use includes: deed restrictions
40. A requirement that all structures have an attached garage that measures 30x33 is an example of a **covenant**.
41. Deed restrictions are also known as CC&R's
42. Upon violation of a deed restriction, a court injunction may be obtained by a neighbor or neighborhood association to stop the violators.
43. An appraisal report is a written opinion that is provided by a licensed appraiser. The appraisal is not a guarantee or a determination as to what the selling price will be in an open market.
44. If you have a buyer that's interested in buying a newly remodeled home that's located near ugly properties, they may lose value due to the **principal of regression**.
45. If you have someone that owns a vacant lot in a busy city who wants to turn it into a parking lot, you may want to recommend that the **highest and best use** of that land may be something like a building.
46. What are economic characteristics that affect value? Remember D.U.S.T! (Desirability, Utility, Scarcity, Transferability)
47. Sales/Market Comparison Approach: Value is estimated by using other comparable property that has been recently sold in the same general area.
48. When trying to comp out a 1 story ranch, you want to use another 1 story structure that *recently sold!* – Even if it's a townhome, if it's 1 story and sold recently, that's the best answer. And no, you can't use a 2 story and "cut the square footage in half".
49. Which is true about the COST APPROACH: The cost of reconstructing the building as a new unit is estimated. *Careful! Don't pick an answer that makes you calculate the *assessed value + land*. (*Assessed has to do with tax*)*
50. When you're trying to value an **older building**, use the replacement cost. (Reproduction cost might also be there but don't pick it).
51. An outdated floor plan would be an example of functional obsolescence.
52. A property located next to a noisy airport would be an example of external obsolescence.
53. Another name for a market analysis = CMA (Competitive or Comparative Market Analysis)
54. PITI = PRINCIPAL + INTEREST + TAXES + INSURANCE
55. What is the biggest benefit of a FHA loan? Low down payments of approximately 3.5%.
56. No down payment is required for VA LOANS.
57. What is a disadvantage of a partially amortized loan? It involves a lump sum due at the end of loan term.
58. The purpose of a reverse mortgage is to supplement the mortgagors' income. An **elderly couple** may use this type of loan.

KEY POINTS FOR THE EXAM

59. What's another name for a land contract? Installment sales contract or Contract for deed.
60. What is the primary purpose of the secondary mortgage market? A lender that receives more demand for loans than funds available may decide to sell its interest in past loans and mortgages to the secondary market thus receiving more funds to generate more lending transactions.
61. GINNIE MAE, FREDDIE MAC, and FANNIE MAE are secondary mortgage markets. NOT SALLY SUE.
62. Alienation Clause: Provides that if the mortgagor transfers ownership to another person, the amount owed to the lender is immediately due in full.
63. Mortgage Discharge (Release/Satisfaction): Issued and recorded by the lender as evidence of releasing the lien that the mortgage created at the time of financing the property.
64. At least 3 business days before closing, borrowers will receive a Closing Disclosure, Stating loan terms such as monthly payments as well as various closing fees.
65. Any significant change to the loan ***switching from a fixed rate to an adjustable rate loan, triggers a new 3-day waiting period for the CD.***
66. Truth In Lending is associated with REGULATION Z
67. Lenders may use the **APR** when advertising
68. When refinancing residential property an owner may rescind the loan within 3 business days after closing date and receive refund of loan fees paid.
69. RESPA = Prohibits "Kickbacks" (i.e. payments when services have not been provided) involving "settlement service providers" such as lenders, real estate agents, title insurance services, appraisals, credit reports, inspections, surveys, and legal services.
70. DEED IN LIEU OF FORECLOSURE: Upon default, lender agrees not to go through foreclosure and accepts a deed from mortgagor surrendering property to lender in full satisfaction of debt.
71. SHORT SALE: A sale of distressed property that is approved by a lender who is willing to discharge the mortgage by accepting less than the loan balance owed.
72. At a property auction, if highest bid is not enough to satisfy the loan then a DEFICIENCY JUDGMENT against the mortgagor is obtained to hold him/her personally liable for the difference.
73. At a property auction, unpaid property taxes always get paid FIRST!
74. If a broker wants John to work exclusively with the seller and Marie to work exclusively with the buyer, this would be **designated agency**.
75. If a seller authorizes you to accept offers on her behalf through a power of attorney, you can do as they say. For example, she authorizes you to accept any cash offers over \$130,000 cash; if \$140,000 cash comes in, take it!
76. The employment contract is known as the LISTING AGREEMENT when working for the seller and a BUYER AGENCY AGREEMENT when representing the buyer.
77. The contractual relationship that's created between the broker and seller: Expressed Agreement

KEY POINTS FOR THE EXAM

78. IMPLIED (OSTENSIBLE) AGENCY: Leading a person to believe that agent is representing him by so acting or making statements such as telling the customer, "I protect your interest", "I will get you the best possible deal from the other party".
79. Agency disclosure statements must be given in advance, before they provide agent any confidential information.
80. PROCURING CAUSE: The effort that an agent contributes that ultimately results in a sale.
81. EXCLUSIVE RIGHT TO SELL (THE BEST LISTING!): The broker is employed as the sole agent of the principal and is promised a fee regardless of who procures a buyer.
82. EXCLUSIVE AGENCY LISTING (THE SECOND BEST LISTING): Gives broker THE sole right to sell property, however, owner reserves right to sell by him/her without paying commission. If any other broker sells the property, listing broker is still protected.
83. EXCLUSIVE BUYER/TENANT AGENCY AGREEMENT (The "Twin Sister" of the Exclusive Right to Sell): The broker will earn a commission when the buyer/tenant buys or leases a property whether through the broker's efforts, or if the buyer/tenant locates property on his own, even if listed by another broker or offered through a private owner.
84. PROTECTION CLAUSE: A clause inserted in a listing agreement aimed at protecting the listing broker in the event that a buyer who was found by the broker returns to purchase the property, directly from the owner but after the expiration date of the listing agreement.
85. TRUST, LOYALTY AND SKILL is owed to your clients.
86. Puffing: An exaggeration of facts i.e. a realtor claiming that property values will double by next year.
87. The broker and seller are not getting along, what would have to happen for the listing to terminate?
The house burns down.
88. When must you provide the sellers disclosure statement? When entering into a binding purchase agreement.
89. The real estate licensee must make the sellers disclosure statement available to the public if requested.
90. SILENT FRAUD (Non-Disclosure): The act of withholding information regarding concealed property defects from the buyer while the seller knows if such information is disclosed, it may result in losing the sale or offering a lower price.
91. Material Facts = OBVIOUS things that are wrong i.e. bad furnace, leaky roof
Non-Material = Death in house, sellers are desperate to move
92. Never offer expert advice – If your buyer is curious about a potential issue about the house, *urge them to get an inspection!*
93. If you have a seller who insists you keep something materially wrong with the house a "secret", refuse the listing!
94. If your buyer is waiting on a seller to respond to an offer and they get impatient, you should **revoke** your current offer before you make any new offers to other sellers.

KEY POINTS FOR THE EXAM

95. Contracts do not have to be “bottom lined”: Even if a buyer refuses to sign the “bottom line” of a purchase agreement, it is nonetheless binding and in full force and effect.
96. \$0 is required by law to enter into a contract.
97. Why do we have an Earnest Money Deposit (EMD)? = Valuable Consideration
98. If someone is not of legal age when they entered into a contract, the contract is VOIDABLE.
99. STATUTE OF FRAUDS: Requires certain contracts to be in writing in order to be enforceable. Also requires parties to sign contract to become bound by its terms.
100. If you're given a “verbal listing” you may or may not be entitled to a commission.
101. Seller receives an offer from buyer that is subject to the sale of the buyer's present house. The seller wishes to accept but does not want to be at the mercy of the buyer who may not sell his house anytime soon. The seller counters by adding an “**escape clause**”.
102. A broker is hired to sell property under a listing agreement. A month later, **the broker dies**. The listing agreement will be terminated due to operation of law.
103. EQUITABLE TITLE: Legal interest that buyer acquires in property after the signing of a sales contract (purchase agreement) by all parties that gives her the legal right to compel the seller to deliver title to property when the buyer pays the entire purchase price.
104. Option Contract: A **unilateral contract** by which the seller must perform.
105. Optionee = Buyer
106. Tenancy at Will = Leasing month to month i.e. an undetermined duration
107. Tenancy for Years = A lease with a beginning date and an end date. Don't be fooled: a 3-month lease could be **Tenancy For Years** – It doesn't have to be a “year”. Don't let the word “years” trick you.
108. NET LEASE: the tenant pays rent, plus some or all of operating expenses such as property taxes, insurance, maintenance, etc.
109. Net Lease: Also referred to as a TRIPLE NET lease.
110. If you have people that are looking to rent space but they don't want any surprises in their rent, recommend a gross lease.
111. Percentage leases are found mainly in retail.
112. If you represent the LESSEE, you represent the TENANT.
113. **RIGHT OF FIRST REFUSAL**: Allows an individual (usually a tenant) to match a purchase price or rent offered to landlord by a third party. If tenant agrees to match price, then the property is sold or re-rented to the tenant and not to the third party.
114. Title insurance covers against any unrecorded documents, forged documents, or undisclosed/missing heirs.

KEY POINTS FOR THE EXAM

115. What is true about title insurance? (BOTH the buyer and the seller must obtain title insurance)
116. Subordination vs. Subrogation
- Subordination clause:** States that the rights of a mortgage holder will be secondary or subordinate to a later lien or encumbrance, giving the second encumbrance first priority.
- Subrogation clause:** A clause in the title policy that allows the insurance company who pays a claim to seek reimbursement from the party who caused the loss.
117. Special Warranty Deeds only protects against claims arising out of the Grantor's (sellers) period of ownership.
118. Quit Claim Deed: This deed provides the least liability for title defects against the grantor (seller).
119. What is a settlement/closing statement? – A document that shows buyer and seller debits and credits
120. A broker or associate broker who is involved at the closing shall furnish, or cause to be furnished, a complete and detailed closing statement signed by the broker or associated broker showing each party all receipts and disbursements affecting that party and provide copies to buyer and seller. This requirement doesn't apply if the closing is conducted by a title company.
121. Gains on the sale of a "principal residence" are exempt (up to \$250,000 per person and \$500,000 for a married couple filing jointly)
122. What is a disadvantage of investing in real estate? Liquidity
123. What does a home warranty protect against? Anything *inside* the unit such as a bad furnace or a leaky water heater.
124. CIVIL RIGHTS ACT OF 1866: Prohibits discrimination because of race, without exceptions.
125. THE MICHIGAN CIVIL RIGHTS ACT "ELLIOT LARSON": Prohibits against discrimination because of age and marital status.
126. A landlord may not allow a tenant who may be a social drinker or a recreational drug user but must accommodate an individual who is in the process of recovering from alcoholism or drug addiction.
127. **REFUSE TO PERMIT**, at the expense of the disabled, reasonable modifications of existing premises occupied or to be occupied by the disabled if such modifications may be necessary to afford the disabled the full enjoyment of the premises. i.e. a lady in a wheelchair or a deaf tenant.
128. **BLOCKBUSTING:** To profit from inducing any person to sell or rent dwellings by representing entry of certain groups of people of a particular race, color, etc... Think of this as a realtor walking down a **BLOCK, BUSTING** down people's doors freaking them out.
129. **REDLINING:** A lender refuses loans on property located in certain sections of the city altogether regardless of qualifications of property or applicant.
130. A realtor decides to show homes ONLY to Asian buyers because the seller is Asian. This is unethical due to its discriminatory practices (Steering).

KEY POINTS FOR THE EXAM

131. If a private club refuses to rent to a minority family, they aren't discriminating if they have dwellings that are not being operated commercially (nonprofit i.e. they're exempt).
132. Why do we get licensed? Consumer Protection
133. Who appoints the 9 members of the board? The governor
134. Real Estate Board – 9 Members: Six (6) of the members have a Real Estate license and three (3) represent the public.
135. What does the board do? They interpret licensing requirements, aid the Department in investigations against licensees, recommend to the Department to issue or renew a license to a person who has met the requirements, recommend approval for educational courses and joining the Department in approving the form and contents of the licensing examination, promulgate rules setting and adjusting the minimal standards of practice.
136. With investigating a complaint, the Department may petition the **Department of attorney general to issue a SUBPOENA (court order)** ordering a person to appear for an investigation or ordering a person or company to produce records related to the investigation.
137. If the informal hearing does not result in a settlement, a formal hearing shall be scheduled.
138. Can you pay a commission to a licensed, non-resident? Yes, a licensed real estate broker may pay a commission to a licensed real estate broker in another state if the non-resident real estate broker does not conduct business in this state.
139. A real estate broker, failing to return a salesperson's license within five (5) days is in violation.
140. Money deposited in the broker's trust account must remain and be accounted for at the consummation or termination of the transaction. No one may use this money until that time. If so, it may be **an illegal conversion of funds**.
141. A real estate broker shall deposit funds into the trust account within (2) banking days after the signing of a purchase agreement by *all parties*. So, if the buyer makes an offer and EMD is received on Monday, and the seller accepts the offer on Tuesday, Thursday is the deadline.
142. The department may suspend you immediately, without investigation, if you're an imminent threat to the public.
143. The Department can fine you, not to exceed \$10,000.00. The license may be suspended until the fine is paid.
144. The board may censure you as a penalty if you commit a violation.
145. Non licensed people engaged in the sale of owned real estate may not enter into more than five real estate sales in a twelve-month period. Anything over that shall be done with a broker.
146. A real estate licensee shall carry the pocket card while doing business.
147. No reciprocal licensing agreements with other states
148. When must a licensee renew their license to avoid interruptions? October 31

KEY POINTS FOR THE EXAM

149. A licensee gets licensed in the 2nd year of a 3-Year Cycle. How much continuing education do they need? 12 hours (6 hours + 6 hours)
150. When advertising, the **telephone number or street address** of the employing broker must be on the advertisement. Also, the business name of the employing broker, in **equal or greater type size** than the name of the associate broker, salesperson, or cooperating group.
151. A P.O. BOX does not count as a brokers "business address"
152. Dual agency is only legal with **written consent** of both parties.
153. Is a licensee limited when acting as a dual agent? Yes, they will not be able to disclose all known information to either the seller or the buyer.
154. The licensee, upon receiving an offer to purchase shall recommend to the purchaser that a TITLE INSURANCE policy (Owners Policy) be submitted by the seller to the buyer.
155. If the licensee receives a written offer, they should submit it immediately. Don't wait for any "verbal offers" to come in later. Written offers get submitted right away.
156. A branch office that is more than twenty-five (25) miles from the city limit where the broker's main office is maintained must be under the direct supervision of an associate broker. A top producing salesperson can manage the branch locations within the 25 mile radius.
157. A salesperson shall not accept a deposit check made out to salesperson. All checks must be written to the order of the broker (as licensed).
158. A broker may not advertise in any other name than what they're licensed under.
159. A broker may maintain more than one trust account and may have up to two thousand (\$2,000) dollars of his own money, in each trust account.
160. No lottery, contests, or drawings allowed when advertising your real estate deals. However, if **everyone** gets the same gift, it's ok i.e. everyone gets a rose or a garage opener.
161. In case of co-operating brokers, the final responsibility for the closing lies with the listing broker/associate brokers.
162. Failing to disclose knowledge of sex offenders shall not be grounds for action against licensee.
163. State license laws generally treat the salesperson as an employee. Therefore, any wrongdoing may be reflected on both, the salesperson and the broker. That means, if the broker is on vacation and their salesperson does something wrong back home, they're still both in trouble.
164. What's the use of the security deposit? To reimburse landlord for damage to unit or nonpayment of rent.
165. In Michigan, criminal usury ceiling is set at 25% APR. While regulated lenders may charge up to 25% APR, non-regulated lenders cannot usually exceed 11% APR (certain exemptions apply). So, if you're asked about a land contract being offered with 12% interest that would be against usury laws.
166. A master deed must be recorded by condominium developer before building.

KEY POINTS FOR THE EXAM

167. Who does MSHDA help? Michigan's low and moderate-income citizens
168. Licensees must not participate in discussions with other competing agents that may suggest "price fixing" or other violations. If a licensee happens to be in a meeting where these issues are discussed or suggested, the licensee must leave the meeting if s/he does not want to be implicated in a conspiracy. This violates **Michigan's Antitrust Laws**.
169. Be careful of using dangerous words or phrases like "everyone charges 10% commission rate, it's no big deal", or "Sorry, the MLS only allows 90 day listings, we can't any shorter than that" – However, it's OK to say "our company charges a 3% co-brokering fee when working with other companies" – That's fine.
170. Michigan Right to Farm Act: The act protects farmers despite local ordinances that may pass to oppose their operation.