

Virginia Real Estate Textbook Supplement-4th Edition, V 1.0

IMPORTANT! Course updates and other resources are always available at www.moseley.org. Please review and familiarize yourself with the following information, as it is included in the **National** portion of the PSI exam. (Please refer to pages 2-5 of the PSI Candidate Bulletin).

Property Law

The following information should be included in the Property Law section of your textbook. The specific order of these topics can be found in the PSI Candidate Bulletin.

PHYSICAL DESCRIPTIONS OF PROPERTY: Local tax assessment offices keep a record of physical descriptions of properties upon which they base annual property tax assessment. These public records describe square footage of the building and square footage/acreage of the land. They also list the number of certain rooms (bedrooms, bathrooms), certain property features (fireplaces, decks, patios, garage, basement). Public records also contain descriptions of the construction materials used, such as roofing materials (composition shingle, slate, etc), exterior wall materials (siding, shingles, brick, stone.), and the construction type and style (single family, 2 story).

CONVEYANCES AFTER DEATH: In addition to the transfer of title by deed during the life of the owner, title to a property may be transferred upon the death of the owner by will or by intestate succession. However, if the deed indicates that title to a property is held by 2 or more owners as joint tenants with the right of survivorship, upon the death of one owner, the title will automatically be transferred to the surviving owner by operation of law. This occurs even if the deceased owner attempts to leave his share of the property by will to another party or if the intestate succession laws would otherwise have another party inherit the deceased owner's share of the property.

1. Types of Wills: A person who has a will is called a "testator." The will informs interested persons (relatives, friends, creditors) how he wishes to distribute his estate (real and personal assets) after death, but it has no legal effect until the death of the testator. When the testator dies, the will is filed with a local court and goes through a probate, or approval, process to make sure that it is a valid will (not a forgery; testator was of "sound mind" when he wrote will, etc.) It is also necessary to make certain that the executor/personal representative (the person named in the will to distribute the estate) carries out the instructions in the will and pays the creditors of the testator. Common types of wills are:

a. Simple will. A will that provides for the outright distribution of assets.

b. Testamentary trust will. A will that sets up one or more trusts for some, or all, of the testator's property after one's death.

c. Holographic will. A will that is not witnessed and in the testator's handwriting. This type of will is not valid in all states.

d. Pour over will. A will that leaves some/all of testator's assets to a living trust that testator established before her death.

e. Oral will (also called nuncupative will). A will that is spoken. This type of will is not valid in many states, and, where permitted, is only valid if made during one's final illness and may only apply to personal property. Oral wills are not effective to transfer a title to real estate.

f. Living will. Often confused with a living trust, a living will is actually not a will at all. It is only valid during a person's lifetime and does not dispose of assets. A living will instructs a doctor whether a person wishes life support, in the event he is terminally ill and cannot make medical decisions due to mental incapacity, permanent coma, etc

2. Testate vs. Intestate Succession: If a person dies without a will, (or living trust), he is said to die "intestate". The question of who inherits the descendant's estate (after the payment of applicable debts) is handled in each state by the laws of descent and distribution, also known as "intestate succession" statutes. These statutes establish classes of people (heirs) who will inherit the estate. An administrator is appointed by a court to serve the same role as that of an executor/personal representative/trustee. If there is no one available who meets the statutory definition of the descendant's heir, the estate (including title to real property) escheats, or returns, to the state.

3. Living Trust: Living trusts, (inter vivos), are "will substitutes," which (unlike wills) become effective during a person's lifetime. In a living trust, a person (grantor/settlor) names a trustee to manage the assets he places in the trust for named beneficiaries (could include settler/grantor himself). Typically, those with living trusts transfer the title to any real estate they own into the name of the trust. The trustee then has the right to sell the property or otherwise transfer it pursuant to the terms of the trust. If the settler/grantor names himself as trustee, the trust also includes a provision naming a successor trustee to take over managing the trust assets upon his death (or incapacity). Living Trusts are usually established to avoid certain types of taxes, to plan for the management of their assets should they become incapacitated, and to avoid the "public" probate process. Living trusts (unlike wills) are not filed with a court.

FORECLOSURE, SHORT SALES: If a property owner can no longer afford to pay his mortgage and his mortgage amount is higher than the property value, it is not possible for him to sell the property and pay the lender in full, so the lender will release its lien to transfer clear title to the new buyer. In this circumstance, in order to transfer clear title to a new owner, the property must either go through a foreclosure or a short sale.

1. Foreclosure: The lender follows the procedure under state law (trustee sale under a DOT/judicial foreclosure under a mortgage) to sell the property. During the foreclosure process, all liens on the property are removed so that the new buyer (purchasing the property at foreclosure) will receive title to the property free of all liens. Foreclosure proceeds are applied to satisfy the foreclosing lender and any superior liens. Any remaining proceeds go to satisfy junior liens. If the proceeds are insufficient to satisfy the amount owed to the foreclosing lender and any superior or junior liens, the defaulting borrower still owes the lien holders the amount of the "deficiency", unless state law prohibits deficiency judgments.

Sometimes, a lender will allow the defaulting borrower to avoid foreclosure by transferring the title to the lender using a deed in lieu of foreclosure. None of the junior liens are eliminated from the title to the property if a "deed in lieu" is used.

2. Short Sale: As an alternative to foreclosure, if the lender agrees, the defaulting borrower can sell the property to a new buyer for less than the full amount owed to the lender. This is known as a "short sale" because the lender accepts less than is owed in return for releasing the lien on the property. The new buyer then receives the title to the property, free of the lender's lien. However, unless prohibited by state law, the defaulting borrower still owes the lender the

remainder of the unpaid debt (deficiency). The lender (at its option) may agree to forgive the deficiency or may require the defaulting borrower to sign a note agreeing to pay all or part of the deficiency.

SPECIAL PROCESSES (Broker Only)

1. Forfeiture of Contract: In many states, buyers (vendees) commonly purchase property from sellers (vendors) under land installment contracts (contracts for deed). These contracts are used in certain respects as a method to finance the purchase of real estate.

a. Foreclosure vs. Forfeiture: If the buyer defaults on the contract, in some states, the seller may foreclose under state foreclosure laws using the theory that the installment contract, as a finance instrument, creates an equitable vendor's lien (a lien implied for the unpaid purchase price, where a vendor has not taken any other lien or security beyond the personal obligation of the buyer). Instead of foreclosure, in some states, the seller may choose to gain possession by forfeiting the rights of a buyer under the contract, provided the contract has an enforceable forfeiture clause. If forfeiture occurs, the buyer loses rights in the property and the title reverts to the seller, unless the buyer corrects the breach and pays the seller's cost of serving notice of forfeiture.

b. Notice of Forfeiture: The vendor must comply with the contract requirements regarding the notice of forfeiture, as well as state law, if any, in order for the forfeiture to be enforceable. Examples of these requirements include: identification of the property, specification of which terms of the contract were breached by the buyer, specifications regarding the amount owed, informing the buyer of the "cure" period for the breach (usually 30 days), and compliance with the service or publication requirements for the notice.

c. Election of remedies: If a vendor elects to forfeit (thereby terminating the contractual relationship), he may waive the right to foreclose his vendor's lien in equity to bring an action for future installments of the purchase price as they come due, to bring an action for specific performance of the contract against the vendee, or to pursue any other remedy which relies upon the existence of the contract.

2. Bankruptcy

a. Petition in Bankruptcy--Automatic Stay: The filing of a bankruptcy petition causes an automatic stay (stop) of all litigation against the debtor and all collection attempts by creditors (including mortgage lenders). This stay stops any pending foreclosure until the discharge in bankruptcy is granted or denied. The purpose of the stay is to give debtors some breathing room so they can decide in Chapter 13 and Chapter 11 cases how to reorganize their finances. In Chapter 7 cases, it protects debtors' exempt property and gives the trustee the chance to see what non-exempt assets the debtor has for the purpose of sale and satisfaction of creditors. A creditor has the option of requesting the bankruptcy court to "lift" the stay so that, in the case of a mortgage lender, it can foreclose.

b. Petition in Bankruptcy--Effect on title: The filing of a bankruptcy petition creates an "estate" that includes all of the debtor's interest in property (including real estate) as of the date of the petition.

The title to the property remains the property of the bankruptcy estate unless (1) the property is exempted by the debtor pursuant to the Bankruptcy Code, (2) the property sold in accordance with the Bankruptcy Code, (3) the bankruptcy court dismisses the bankruptcy, (4) the property is abandoned by the court or the bankruptcy trustee, (5) the court allows a secured creditor (the mortgage lender) to foreclose, or (6) the title re-vests in the debtor pursuant to a confirmed plan of reorganization.

In a Chapter 7 voluntary liquidation, title generally passes to the trustee. In Chapter 11 reorganization, the debtor (called “debtor in possession”) usually retains title. A trustee or debtor in possession usually must obtain an order from the bankruptcy court in order to sell, lease, or mortgage the property during the pendency of the bankruptcy.

c. Abandonment of Property: In a Chapter 7 case, the court may abandon the property if the property has no value to the estate (no equity). Once abandoned, the title reverts to the debtor. The debtor himself may want to get rid of (surrender) the abandoned property because it has no value (equity). However, even if the debtor surrenders the abandoned property, until the lender forecloses or agrees to accept a deed in lieu of foreclosure, the debtor is still the owner of the property. This is the case even after the debtor is discharged in bankruptcy, thereby being discharged of the debt to the lender.

d. Property Transfer in a Chapter 7 (liquidation): If the court authorizes the sale of the property, the deed is signed by the trustee. If the court has abandoned the property, and the property is sold or otherwise transferred, the deed is signed by the debtor.

e. Property Transfer under Chapter 11 (business reorganization): If the court order authorizes the sale, or the confirmed plan of reorganization provides for the sale of the property, the “debtor in possession” will sign the deed (unless the court appoints a trustee for the debtor’s estate, in which case the trustee signs the deed.)

f. Property Transfer under Chapter 13 (wage earner plan): If the court approves the sale in the context of a Chapter 13, the sale can take place. If no sale is requested or approved, under the wage earner plan, the title re-vests in the debtor.

g. Effect of a pre-petition lien on the property: Unless the court has set aside a lien that has attached to the property pre-petition, the lien (judgment lien, mortgage, etc) remains attached to the property after the debtor is discharged in bankruptcy (although the debtor receiving a discharge is not personally liable for the lien).

In a Chapter 11, a court may approve a plan of reorganization that alters the rights of a mortgage lender, (or other lien creditors), enabling the property to be sold free and clear of liens. In a Chapter 13 wage earner plan, the court may similarly alter the rights of a mortgage lender, except if the mortgage is secured by the debtor’s primary residence.

3. Probate: In general, when a person dies with real estate titled in her name, the title to the property immediately passes to (vests in) the person(s) to whom it is devised in her will or, in the absence of a valid will, to the person(s) who succeeds to the decedent’s property as heirs under the intestate statutes.

However, the rights of the heirs/devisees to the property are subject to the control of the probate court for the purposes of administering the estate. Because the decedent may have owed debts (which might be satisfied with the proceeds of sale of the property) or because there may

otherwise exist competing claims to the property, (will contest, spousal share, shares of minor children), a probate proceeding must be opened with the county probate court in order to legally transfer title to the property.

a. Estate Administration: The “probate estate” contains all the real and personal property of the decedent. The state law of the jurisdiction where the real estate is located controls the estate administration with regard to the real estate in the probate estate. Generally, after the court qualifies or appoints the executor (named in the will) or the administrator (named by the court if no will) to administer the probate estate and make sure all claims are satisfied, the following process occurs: Admission of the will to probate (if testate); opening of the administration of the estate; inventory of the estate (including all real estate and personal property); payment of claims, taxes and statutory allowances (mandatory spousal share, etc.); closing of the estate; distribution of remaining assets of the estate. Once the estate is closed, the heirs/devisees receive title to the real estate, (either by deed from the executor/ administrator or by operation of law), free from all claims against the estate of the decedent.

b. Probate Sales (during the pendency of estate administration): If the real estate is to be sold (mortgaged, leased) before the probate estate is closed, the process is controlled by state statutes, which must be strictly followed.

i. Sale by heirs/devisees: If the heirs/devisees sell or transfer the property during probate to a third party (or to one or more of their fellow heirs/devisees), title passes, subject to all probate matters, (claims against the estate including taxes, creditors rights, rights of the surviving spouse, etc). In some jurisdictions, the executor must consent to the sale.

ii. Sale by Executor/Administrator: Generally, an administrator must get a court order before he can sell any real estate. If the will gives the executor the power of sale, she may sell the property without the approval of the probate court but must still comply with the statutory requirements, (spousal consent, claims of creditors, posting of a bond, etc.). If the will does not give the power of sale to the executor, she must get a court order approving the sale.

ENVIRONMENTAL IMPACT REPORTS: Many local laws require the preparation of environmental impact reports (EIRs) when a development project may have a significant effect on the environment or competing use in the surrounding area. The EIR weighs the project's impacts, recommends steps to avoid or minimize those impacts, and/or suggests alternatives, including the option of forgoing the project. The EIR allows the local planning commission to make an informed decision as to whether or not to approve a project.

REGULATION OF SPECIAL LAND TYPES: Many states and localities regulate development in areas with special land use issues (flood plains; coastal areas), as well as areas that may be subject to natural disasters (earthquakes, hurricanes), or areas with fragile environments (wetlands, dunes). These regulations govern construction materials (flood proofing; seismic building codes), limit area where construction can occur (coastal shoreline and fault line setback restrictions), and occasionally ban development (dune and wetlands protection).

REGULATION OF ENVIRONMENTAL HAZARDS: The development and sale of property is impacted by many federal, state and local regulations that address environmental hazards.

1. Abatement, Mitigation, and Clean-up Requirements: If a commercial property is contaminated by hazardous waste, a federal law called CERCLA (also known as “Superfund”) imposes mitigation, abatement and cleanup requirements on those responsible for the contamination or on owners of that property, even if the owners may not have been responsible for the contamination. The federal EPA has the authority to clean up hazardous waste sites and charge the owners of the property for the cleanup. The costs of a typical site cleanup can be as much as \$25 million.

2. Contamination Levels & Restrictions on Sale or Development of Contaminated Property: Because of the risks of developing property that potentially contains hazardous waste, the burden is on the purchaser to investigate before purchase. Under CERCLA, a purchaser of commercial property will not be responsible for cleaning up contaminated property if he can prove he is an “innocent purchaser.” The purchaser must first have a Phase I environmental study performed. If the Phase I study of engineering data shows the likelihood of contamination, he then must get a Phase II study, which involves an engineering company testing soil and water samples. If the Phase I and Phase II studies come up “clean,” the purchaser can use the “innocent purchaser” defense if the EPA later discovers hazardous waste and sues the purchaser for the cleanup costs.

3. Types of Hazards & Potential for Agent/Seller Liability: In addition to hazardous waste (covered by CERCLA), purchasers, sellers and agents must be aware of other potential environmental hazards in or around property such as: lead based paint (causes brain damage), asbestos (in insulation, shingles; linked to cancer/respiratory problems), underground storage tanks (groundwater contamination from heating oil), radon (occurs naturally in soil; linked to cancer), carbon monoxide (poisonous gas from stoves, chimneys, furnaces), UREA formaldehyde (from pressed wood products and insulation; linked to cancer), mold (from water leaks; causes respiratory and other health problems), high voltage power lines (exposure to electromagnetic fields; linked to some forms of cancer).

Of those hazards, only lead based paint has a federally imposed disclosure requirement. Agents must make sure the sellers and landlords of residential property built prior to 1978 comply with the disclosure requirement. Asbestos is not regulated in residential housing, but it is regulated in public buildings, particularly with respect to removal of the deteriorating asbestos.

Agents must be aware of state and local laws requiring sellers and/or agents to disclose these hazards to potential buyers. Some jurisdictions require disclosure of some of these hazards. Some states’ regulatory authorities and/or local trade associations provide standard contract contingency language for buyers who wish to test for environmental hazards before committing to the purchase of a property. If a property contains one of these hazards and the seller or agent knows this fact, failure to disclose could lead to seller and/or agent liability.

HOA REGULATIONS: In a homeowners association (HOA), property owners themselves control certain property uses in their community. A HOA is a legal entity (usually a nonprofit corporation) created by a real estate developer under state law. It is composed of all of the homeowners in the community and is usually run by a Board of Directors elected by the owners. The extent of the HOA’s power to regulate property use is set forth in its governing documents (bylaws, deed of declaration) and state law. HOA regulations usually involve the following: controlling nuisances (noise levels, pets), controlling the use of commonly owned facilities (parking lots, pools), setting and collecting mandatory HOA fees to cover maintenance, and controlling the “look and feel” of homes and yards through architectural control rules (paint color; fencing materials; landscaping; display/storage of items in yard

such as signs, clotheslines, sheds). Owners violating HOA regulations are subject to fines and the loss of privileges to use certain common facilities (pools clubhouses). The HOA can place a lien on a property for failure to pay fines or dues.

INDUSTRIAL PROPERTY: Industrial property is a type of commercial property and may be an area of specialization for commercial real estate professionals. Examples of industrial real estate include:

- a. Warehouse properties with loading docks and up to 15% used as office space
- b. Manufacturing buildings with sufficient height to accommodate overhead cranes
- c. Office showrooms that are a single story with high ceilings and up to 15% used as office space
- d. Research and development industrial properties that contain labs

In addition to the commercial property issues discussed above, those specializing in Industrial property will need to have special knowledge of laws concerning hazardous waste such as CERCLA (superfund), as well as other state and federal environmental laws.

Contract Law

The following information should be included in the Contract Law section of your textbook. The specific order of these topics can be found in the PSI Candidate Bulletin.

CONTRACT CLAUSES: In addition to addressing matters such as identity of the parties, property description, purchase price, closing (settlement) date, identity of the settlement agent, and date of possession, a contract could also have one, or more, of the following clauses:

- a. **Acceleration:** A clause stating that if a payment is missed, or some other default occurs (such as the debtor becoming insolvent), the complete performance under the contract is immediately due. Found in mortgages, leases, installment sales contracts (land installment contracts)
- b. **Assignment:** Generally, contracts are assignable by either party unless the contract prohibits assignment. Property sellers usually want to override this rule by including a clause to prohibit the buyer from assigning the contract. Sometimes, they permit assignment if the seller agrees to the assignment in writing, and the original buyer remains liable if the new buyer fails to perform.
- c. **Contingency:** In a purchase transaction, there may be several provisions (contingencies) that must be met during the executory period of the contract before a party has the obligation to perform. If the contingency fails, the contract is voidable at the option of the party that the contingency is designed to protect/benefit. Examples: finance contingency (buyer does not have to buy if lender does not give him the loan), home inspection contingency (if inspector finds a problem, buyer does not have to buy)
- d. **Default:** This provision sets forth the rights and obligations of the parties in the event that one party fails to perform. It lists the events that constitute default and may also address the remedies (specific performance, damages) available to the parties in the event of a default.
- e. **Liquidated Damages:** In the event of a buyer default, sellers usually want the option of accepting a certain sum in damages (usually the earnest money deposit). Usually, this clause states that if the seller chooses liquidated damages as a remedy for a buyer's breach, he cannot also sue for other damages.

f. Notice: In most contracts, the parties must give each other notice of different events during the executor period (title objections, results of inspection reports, whether the loan has been rejected or obtained, etc.) Notice provisions state where a party must be officially notified (home address, work address, through agent) and how (via fax, email, hand delivery, etc.).

g. Property condition: Most contracts provide that, at the closing date, the property will be in substantially the same condition as on the date the parties first signed the contract, (normal wear and tear excepted).

h. Prorations: Any item that will be prorated (adjusted) between the parties at settlement date (property taxes, utilities, special assessments, HOA fees) should be set forth in a prorations clause.

i. Risk of loss: This clause usually provides that the seller bears the risk of loss due to fire or other casualty that occurs during the executory period of the contract.

j. Survival/Merger: Under the law in many states, the promises and obligations in the contract are “merged” into the deed of conveyance and do not survive settlement. This means that if a party does not fully perform and the other accepts the property at settlement, he cannot later insist on full performance. (Example: In a contract with a merger clause, a seller promises to deliver the house with newly painted shutters. The seller does not paint the shutters. The buyer accepts the house at settlement without objection or attempt to get a credit/reduction in price for the cost of painting shutters. After settlement, the buyer cannot sue the seller for the cost of painting the shutters.) The parties can circumvent the merger doctrine through a contract clause that allows the promises and obligations to “survive” closing.

k. Time is of the Essence: As a general rule, time limits in contracts imply “reasonable time” and are not strictly enforceable. Example: A closing date that is set for July 15 means July 15 or a reasonable time thereafter. Most parties prefer the dates in a real estate contract to be enforced strictly so they include a “time is of the essence” provision. In the above example, if such provision was included, and if the buyer or the seller did not settle by July 15, the non-settling party would be in breach of contract.

l. Title: This provision addresses the quality of title that the seller must deliver (marketable title; insurable title), the interest being conveyed (fee simple), and the title warranties that the seller will make in the deed (general warranty, special warranty). The title clause usually allows the seller to extend the settlement date for a specified time period to correct (if he can) any title defects revealed during the buyer’s title search. If the title defects cannot be corrected, the contract is voidable at the option of the buyer. Most title clauses state that the purchaser is willing to accept common easements and restrictions recorded in land records.

MANAGEMENT AGREEMENTS (Broker Only)

1. Manager Duties and Authority: The broker (or other property manager licensed or authorized under state law) should enter into a written property management agreement with the owner client that sets forth the rights and obligations of both parties. The manager cannot exceed his authority that is specifically set forth under the agreement. Such agreements typically address the duties:

- a. collect rent
- b. handle security deposits

- c. Evict Tenants
- d. Handle and pay for repairs
- e. Hire Employees
- f. Screen Tenants
- g. Negotiate Leases

2. Compensation: Manager's receive either a flat fee or a percentage fee (based upon rental income received)

3. Owner's Duties: The owner is responsible for reimbursement of the manager for any and all expenses. The owner is also responsible to indemnify the manager against lawsuits involving exercise of manager's duties.

4. Termination: Management Agreements usually exist for a definite duration and include provisions for early termination due to a specific cause.

PRIORITY OF MULTIPLE COUNTEROFFERS: A seller who gets multiple offers must counter only one offer. If the seller makes multiple counteroffers to multiple buyers, the seller risks multiple acceptances (and would be legally bound to sell the property to more than one buyer). If negotiations on the Seller's chosen counteroffer terminate, she can respond to another offer, if it has not been withdrawn or expired pursuant to its terms.

LEASE-PURCHASE AGREEMENTS: If a tenant wants to purchase the landlord's property but cannot do so immediately (cannot qualify for loan or does not have enough down payment), the parties can enter into a lease-purchase agreement which contains both lease terms and purchase contract terms. They agree on a purchase price and purchase date to occur at an agreeable future date. In the interim, part of the tenant's rent each month is applied to the purchase price.

TRUST ACCOUNTS

1. Purpose and Definition of Trust Accounts: Trust accounts (escrow accounts) are bank accounts which state licensing laws require brokers to maintain in order to deposit and hold certain monies of third parties (buyers, sellers, tenants, landlords). State laws vary but usually include provisions governing the following: the time limit the broker may hold third party monies before depositing in escrow, whether the broker can earn the interest, if any, on the account, how the broker may disburse the monies in the event of a dispute among the parties, and state real estate commission auditing procedures.

2. Responsibility for Trust Monies: The broker is usually responsible for maintaining the escrow account and keeping records.

3. Commingling/Conversion: Because escrow money is held in trust for third parties the broker cannot use the money for other purposes (conversion) or cannot mix (commingle) personal or broker firm money with the trust money. Examples of commingling include depositing earnest money in the broker's business operating account, depositing broker's personal funds in the trust account. Conversion includes not only outright stealing, but also using one client's escrow money to pay for something on behalf of another client, and disbursing earnest money for a commission before the property goes to settlement.

4. Monies Held in Trust Accounts: Any money entrusted to the broker by a third party must be deposited in the account (security deposits, earnest money deposits). State law typically gives a broker a certain time period after receipt of the funds to deposit those funds into escrow.

ADVERTISING

1. State Law: State laws may impose advertising restrictions (including Internet) on licensed real estate professionals who advertise property or services.

2. Incorrect “Factual” Statements versus “Puffing”: An incorrect factual statement about the property could subject the agent to liability for misrepresentation. For example, if the agent incorrectly informs the buyer of a boundary line and the buyer relies on that “factual” information, the buyer could later claim the agent misrepresented the boundary location. This is true even though the agent is not considered an expert on boundaries (such as a surveyor) because the agent stated the boundary location as a fact.

If an agent is clearly rendering an opinion rather than expressing a fact, the agent is not likely to be accused of misrepresentation. When rendering an opinion, the agent must avoid crossing the line between exaggerating a selling feature of the property (puffing) and misrepresentation. Puffing is a type of exaggeration that no reasonable person would rely on to his detriment. (Ex. “The gardens are the most beautiful in the county.”). It is not always easy to determine the boundary of puffing ends and misrepresentation. If an agent says, “This well water is the purest water in the county”, and the well water turns out to be unfit for drinking, the agent’s statement may appear to the buyer (and to a court) as a misrepresentation rather than an opinion, or puffing.

3. Uninformed Misrepresentation versus Deliberate Misrepresentation (Fraud): Negligent or uninformed misrepresentation occurs when a licensee wrongly states a fact that he should know (or holds himself out as knowing.) Deliberate or intentional misrepresentation occurs when the licensee knows a statement to be untrue but states it regardless, with the intent that the questioning party will rely on that fact. For example, an agent knows that a buyer is looking for a property where he can open a “doggie daycare.” The agent finds a listing in a neighborhood where there is currently a home with a licensed child daycare, assumes a doggie daycare would also be permitted, and informs the buyer that the zoning will work for that purpose. The buyer purchases the property. Later, the County refuses the buyer a doggie daycare permit. This might be considered negligent misrepresentation because had the agent researched the issue, he would have learned that there is a special exclusion for doggie daycares.

However, if the agent had done the research, knew the doggie daycare would be prohibited, but told the buyer it would be allowed in order to make the sale, this representation has most likely crossed the line to intentional misrepresentation (fraud.)

Because zoning is beyond an agent’s area of expertise, he could have avoided the issue entirely by telling the buyer to do the research on his own to locate appropriate properties for opening a doggie daycare.

4. Truth in Advertising: State licensing laws and licensee codes of ethics require that licensees use advertising that is truthful and not misleading. This applies to both the advertising of property and the promotion of real estate services. The Truth in Lending Act (TILA and Regulation Z) requires certain financing disclosures when specified trigger terms are used in financial service (mortgage) advertisements.

GENERAL ETHICS: State license laws impose mandatory standards of conduct subject to discipline (including license revocation), while private associations (NAR) may impose codes of ethics as standards of practice or membership (no authority over licenses).

1. Practicing within Area of Competence: Agents hold themselves out to the public as specially qualified by reason of experience, ability and knowledge. They owe a fiduciary duty to represent their client diligently and competently. An agent must learn to recognize situations when a client needs the advice of another professional (structural engineer; surveyor; accountant; attorney), and must suggest the client consult such professionals.

Within the real estate practice itself, there are many subspecialties that require special expertise. An agent should not hold himself out as an expert in a subspecialty (short sales, commercial, and property management) unless she has sufficient training and experience to support the claim. If an agent claims to be an expert in a subspecialty, she will be held to a higher standard of care than an agent who does not make that claim.

2. Avoiding Unauthorized Practice of Law (UPL): If the agent is found to be practicing law, he may lose his real estate license and could be subject to civil liability as well as criminal penalties.

During the course of representing a client in a transaction, the client may ask the agent to perform functions which cross the line into the practice of law. In some states, significantly altering from sales contracts may constitute UPL. Agents should rely on pre-printed contract and lease forms used in their local jurisdictions or face civil liability if the client is harmed by the agent's imprecise drafting.

If contract drafting, interpretation questions, or other legal issues (such as title defects, disclosure issues) arise which affect the rights and obligations of the client, the agent should recommend that the client seek legal counsel, even if the advice from the lawyer may cost the client money or may cause the transaction to terminate without a sale.

TECHNOLOGY: Technology is an important tool used by real estate professionals and others to serve clients. While the rise of innovations in communication technology has changed the way agents interact with clients, the core principles and values of the profession remain the same. The following are the main laws and regulations that real estate professionals must follow when marketing by telephone, fax, email and the Internet.

1. "Do Not Call" Laws: There are two principal federal Do Not Call Rules: Entity-Specific Do Not Call Rules and the National Do Not Call Registry.

a. "Entity-Specific" Rules: Since 1995, federal rules have prohibited calls to any consumer who has asked not to be called. Sellers and telemarketers are responsible for maintaining individual "entity specific" Do Not Call lists of consumers who have asked not to receive calls placed by, or on behalf of, a particular seller.

b. The National "Do Not Call" Registry: Since 2003, consumers may now also place their telephone numbers on a National Registry.

ii. Key requirements:

- -No sales/solicitation calls to consumers who register on the National Registry.

--Registration is valid for five years, or until the consumer removes or disconnects the number.

- Sellers must access the registry (through a dedicated website) before making the consumer call and must update their call lists (delete all numbers in the Registry from their list) at least every three months.

-- does not apply to business to-business calls or calls to consumers from political / charitable organizations.

ii. Exceptions

-- Pre-existing business relationship: Agents (and others) may contact persons with whom they have a pre-existing relationship, without violating the Do Not Call Rules, unless those persons have made an “an Entity Specific request” not to be called by that company.

--The Rules include a “safe harbor” for inadvertent mistakes, so a penalty may be avoided if a seller can demonstrate that , as part of its routine business practice, it uses (and maintains records documenting), a process to prevent calls to any number on an entity-specific list or the National Do Not Call Registry.

iii. Penalties: Agents and others who violate these rules could face fines of up to \$11,000 per violation, and possibly injunctive remedies. Violations are measured on a per-call basis. Private citizens may bring an action to enforce the rules if they have suffered \$50,000 or more in actual damages.

2. Email/ solicitation

a. The CAN-SPAM (Controlling the Assault of Non-Solicited Pornography and Marketing) Act was passed in 2003, and the rules went into effect in 2008. It sets requirements for any e-mail that advertises a commercial product or service (such as real estate), and includes website content.

i. Key requirements:

--**Accurate header information.** The “To” and “From” fields, as well as the originating domain name and e-mail address, must be accurate and identify the person who initiated the e-mail.

--**No deceptive subject lines.** The subject line cannot mislead the recipient about the content or subject matter of the message. The message must contain clear notice that the content is an advertisement or solicitation and that the recipient can opt out of receiving more commercial e-mail.

--**Easy opt-out method.** The email must provide a return e-mail address or another Internet-based response mechanism that allows recipients to ask the sender not to send future e-mail messages. When the sender receives an opt-out request, the law gives the sender 10 business days to stop sending e-mail to the requester’s e-mail address.

--**Provide a valid physical mailing address.**

ii. Email to wireless devices: “Mobile services commercial messages” (MSCM) rules add another layer of compliance to the CAN-SPAM rules. The MSCM rules require any business seeking to send a commercial e-mail message to any wireless device—(cell phones, handheld devices, such as PDAs) to first check the FCC's wireless domain name list to assure that the commercial e-mail is not being sent to any of the listed domains. They also require opt out mechanisms, at least one of which must be free of charge to the recipient.

iii. Penalties: The CAN SPAM Act does not allow e-mail recipients to sue spammers -- only the FTC, State Attorney General, and Internet Service Providers may enforce the act. However, statutory damages can be stiff, (for example, the State Attorney General can sue for \$250 per illegal e-mail message up to a maximum of \$2 million or more if the offense includes certain aggravating violations).

3. Do Not Fax Law:

a. Key Requirements: The Telephone Consumer Protection Act (TCPA) and the revised rules under the Junk Fax Prevention Act, passed by Congress in 2005, prohibit the sending of unsolicited advertisements to any fax machine. All solicited or otherwise permitted faxes must contain the company name, phone number, date and time sent.

b. Exceptions: The prohibition does not apply if recipient has given prior written consent or the sender has an "established business relationship" with the recipient. Unsolicited faxes may only be sent to fax numbers obtained either directly from the recipient or from a public source such as a website, public directory, or advertisement. Using numbers obtained by buying client lists is expressly prohibited.

c. Opt-out Notice: The fax must contain an "opt-out" notice conspicuously displayed on the first page which identifies a cost-free telephone or fax number (available 24/7) to which the recipient may send their opt-out request. The notice must also inform the recipient that any failure by the sender to honor an "opt-out" request is unlawful.

d. Penalties: The FCC can impose civil monetary penalties up to \$11,000 for violations and state attorney generals may bring suits for \$500 per violation, with treble damages for knowing and willful violations.

4. State Internet Advertising Regulations: Many states have promulgated specific laws applicable to real estate advertising over the internet (including websites and email) as well as text messaging to phones and PDAs. Often these regulations are more onerous than advertising regulations geared to traditional media (print, television and radio). Licensees should become familiar with their state advertising requirements in that regard.

AGENT’S ROLE IN PREPARATION OF DISCLOSURE FORMS: Agents should never fill out a disclosure form for the seller. An agent’s duty is to advise the sellers of the state’s disclosure laws and the seller’s obligations there under. Using disclosure forms adds a layer of protection to all parties in the transaction, but the forms themselves do not replace an agent’s independent responsibility to disclose all material property defects known by the agent.

WHEN SELLER'S DISCLOSURE MISREPRESENTS PROPERTY CONDITION: If the form contains a knowingly false or incomplete statement, the seller may be liable to the buyer for the damages/loss the buyer suffers as a result of that misrepresentation.

Although the primary responsibility for full disclosure is on the seller, the forms themselves do not replace a licensee's responsibility to disclose all known material property defects. Therefore, if the licensee knows of a defect that the seller refuses, or otherwise fails, to disclose, the agent could be liable to the buyer if the agent fails to disclose it.

WARRANTIES: The following section discusses **Types of Available Warranties** and the **Coverage Provided**.

1. Home warranties: Home warranties will not relieve the seller or the agent of their duties to disclose material defects in the property; however, the warranties may prevent a claim due to misrepresentation because it gives the buyer a way to fix certain problems that arise after settlement.

2. Warranties for Resale Homes: Buyers can purchase, or sellers can provide buyers with, home warranty plans that cover some major appliances and systems in the home. The plans generally cost between \$250 and \$400 for the first year, with an option to renew for a higher rate. The deductible (paid by new homeowner for a service call) varies. Plans vary widely but generally cover the following: Built-in appliances (some may be excluded); Air conditioning, heating; plumbing; interior electrical and telephone wiring; Pools, spas and other amenities may be covered for an additional premium.

Agents should make sure buyer clients understand coverage and limitations (the plan will not replace something if the owner can fix it; owners must use certain service providers; plan caps may result in a major repair only partially covered (for example, a pipe leak may be covered but not the cost of the excavation to get to the pipe).

3. Warranties for New Homes: Warranties for new homes are backed by the builder or purchased from an independent company that assumes responsibility for certain claims. They generally offer limited coverage on workmanship and materials relating to various components of the home for specific periods. Generally, the periods are as follows: 1 year: workmanship and materials (siding, drywall etc); 2 years: air conditioning, heating, plumbing, and electrical systems; and up to 10 years (if provided) for "major structural defects" (roof collapse, etc.).

Most new home warranties do not cover items such as: cosmetic/nonstructural defects in workmanship (cracks in brick, tile, cement or drywall components), or elements of the home covered under a manufacturer's warranty (appliances, furnace, hot water heater).

NEED FOR INSPECTION AND OBTAINING/VERIFYING INFORMATION

1. Agent Responsibility to Verify Statements included in Marketing Information: Generally, the listing agent owes no duty to independently verify the accuracy of any statement in the marketing taken from a source the agent reasonably believes to be reliable (tax records or other government website). However, the agent must not advertise in a manner in which he knowingly misrepresents the property, and all ads must comply with state licensing law, including those requiring the advertising to be truthful and not misleading.

2. Agent Responsibility to Verify Inquire about “Red Flag” Issues: An agent need not investigate the property for material defects, but he may not willfully be blind to its condition. A licensee is expected to exercise good professional judgment to recognize problems that are apparent. An agent is not expected to inspect for “latent (hidden) defects.” However, frequently there is an easily observable “red flag” concerning a potentially dangerous problem (water marks along the bottom of the basement wall may be an indication that the basement leaks; water spots on an upstairs ceiling could indicate a plumbing or roof leak). An agent should pursue such “red flag” items with the seller to determine the extent of the problem with an eye toward repair and/or disclosure, as appropriate. An agent is not obligated to recognize problems that are outside his expertise (unless the agent is also a structural engineer, he won’t be expected to recognize a structural defect, but he might be expected to see “red flag” cracks in the foundation). If the agent becomes aware of an actual material property defect, it must be disclosed.

3. Responding to Non-Client Inquires: Listing agents must respond truthfully to any question asked by the buyer customer and must treat the buyer customer fairly. Agents should be sure of their facts before responding to an inquiry. The agent should state the facts but not interpret or evaluate the property condition. If the agent expresses an opinion, it should be clear that it is an opinion and not a fact. Statements such as, “the crack is minor” or “the unlevel floor is just normal settling”, might be relied on by the buyer as a fact rather than dismissed by the buyer as a mere statement of opinion. For questions about issues that are out of the realm of her expertise (like zoning, school district boundaries, floodplains, property boundaries, etc.) the agent should refer the customer to an authoritative source (surveyor, engineer, government website). When disclosing something the seller said, the agent should state that she has not verified or investigated it herself.

MATERIAL FACTS RELATED TO PROPERTY CONDITION OR LOCATION, PUBLIC CONTROL, STATUTES, OR PUBLIC UTILITIES: Often it is difficult for an agent to determine whether a condition, if it exists, would be “material” for the purposes of disclosure. Many property features may be important to one buyer but not to another buyer. However, if an agent becomes aware of the following problems relating to the property he is listing or selling, unless the conditions are specifically exempt from disclosure under state law, the agent should consider them “material” and the type of fact that should be disclosed to potential buyers:

- a. Adverse land and soil conditions (houses built on certain soils like marine clay may have foundation problems)
- b. Inaccurate representation of Lot or improvement size (could affect offer price or decision to buy)
- c. Encroachments or easements affecting use (part of house built on a utility easement)
- d. Pest Infestations
- e. Toxic mold or other interior environmental hazards
- f. Problems with structural items (roof, doors, gutters, downspouts, windows, foundation)
- g. Problems with condition of electrical or plumbing systems
- h. Problems with condition of appliances/fixtures
- i. Location in natural hazard zone (flood, earthquake, landslide)
- j. Located in specially regulated area (flood plain, waterfront)
- k. Potentially uninsurable property (prior claims history may cause house to be uninsurable or insurance premium to be unaffordable)
- l. Property with known alterations/additions (may lack building permit; or violate building codes)
- m. Local zoning and planning information (street might be set to be widened; favorable zoning may be changing)

- n. Mistaken location of boundaries of school, utility or taxation districts (could affect offer price/decision to buy)
- o. Properties on airport flight paths (noise issues)
- p. Whether the property is subject to liens, local taxes, special tax liens or assessments
- q. Existence of environmental hazards (lead, radon, asbestos, formaldehyde, and high voltage power lines, waste disposal, underground storage tanks, soil or groundwater contamination, hazardous waste)
- r. Whether the property is stigmatized/or psychologically impacted (murder, crime, suicide)
- s. Megan's Law Issues (sex offenders living in the community)

Finance

The following information should be included in the Finance section of your textbook. The specific order of these topics can be found in the PSI Candidate Bulletin.

LOAN APPLICATION PROCEDURES: To apply for most mortgage loans, the borrower must complete a standard federal form (UNIFORM RESIDENTIAL LOAN APPLICATION-(FNMA 1003 Form). The borrower must provide the following: information on employment, salary history, monthly income, assets and liabilities; authorization for lender to verify all information; affidavit stating whether he intends to live in the property. Backup documentation also includes: W-2's; paycheck stubs; copies of purchase contract, tax returns, benefits/ retirement income statements; bank statements. It is a federal crime to provide false information on (or in support of) the loan application.

SUBPRIME AND OTHER NONCONFORMING LOANS:

i. Subprime loan: A type of nonconforming loan that does not comply with Fannie Mae's guidelines (income, documentation, credit history, etc). These loans have higher default rates (than conforming "prime" loans) because they are made to borrowers unable to qualify for a traditional loan, due to insufficient income and/or poor credit. Subprime loans have special features, which make them riskier including: interest-only payments for a set period; "teaser" rates (artificially low rates which increase substantially after a few months); "pay option" (negative amortization) loans with adjustable rates, for which borrowers choose their monthly payment (full payment, interest only, or a minimum payment which may be lower than the interest payment). Lenders charge borrowers more for a subprime loan to make up for the increased risk.

ii. Jumbo loan: A loan that exceeds (does not "conform" to) the loan amount limits set by Freddie Mac and Fannie Mae. Some jumbos may also be subprime loans; however, some are not because they have favorable terms and require borrowers to have excellent credit and sufficient income to afford the payments.

DOWN-PAYMENT ASSISTANCE PROGRAMS

a. ADDI/HOME Federal Programs: American Dream Down-payment Initiative (ADDI), passed in 2003 and the HOME program, a similar federal program passed in 1990, were established to assist low-income homebuyers. The ADDI and HOME programs give funds to states, cities and counties (as participating jurisdictions or PJs), to support homebuyer assistance efforts. While PJs have discretion to determine the specific terms of their programs, in general, assisted homeowners must have incomes at or below 80 percent of the area median income. ADDI funds may only be used for down payment assistance, closing costs, and property rehabilitation work. HOME funds may be used for similar purposes as well as for primary

financing, interest rate subsidies, and loan guarantees. ADDI recipients must be first-time homebuyers, and the amount of assistance per homebuyer cannot exceed \$10,000 or 6 percent of the purchase price, whichever is greater.

b. State Programs: Many state and local governments provide down payment and other assistance to low income residents or first time homebuyers. Most programs have purchase price limits, income limits and require mandatory education classes.

PREDATORY LENDING LAWS: In addition to state usury laws, there are federal and state law regulations regarding the practice of predatory lending. Predatory lending describes unfair, deceptive, or fraudulent lending practices, including: loan flipping (convincing borrower to refinance into a higher rate or more expensive loan); imposing excessive fees and “packing” other products into the loan (credit life insurance premiums); lending without regard for the borrower’s ability to repay; fraud by inflation of property values or borrower income through doctored loan applications/settlement documents; and conspiracy between appraisers and brokers to inflate prices above market rates. Nearly all predatory lending occurs in the “subprime market,” where loans are sold to people with poor credit or to people who are likely to lack an understanding of credit and mortgage terms.

a. Federal Law/HOEPA: The Home Ownership and Equity Protection Act was enacted in 1994 as part of the Truth in Lending Act (TILA) and amended in 2002. HOEPA only regulates closed-end home equity loans (purchase loans and equity lines of credit are not covered). Under HOEPA, lenders cannot provide short-term balloon notes, impose prepayment penalties greater than 5 years, use non-amortizing schedules, refinance loans into another HOEPA loan in the first 12 months, impose higher interest rates upon default, or originate loans where the lender has not verified borrower’s ability to repay. The lender is required to provide the borrower a shortened TIL disclosure statement and must inform the borrower that he is not obligated to complete the transaction. The borrower must also be informed that he could lose the home if he fails to make the required mortgage payments.

b. State law: Many states/localities have passed laws expanding the coverage of HOEPA using the following actions: including home purchase and equity lines of credit, prohibiting or limiting prepayment penalties, limiting or prohibiting balloon payments, and limiting or prohibiting the “packing” of credit life or other insurance premiums into the mortgage. Many states also require that borrowers participate in loan counseling.

APPROPRIATE CAUTIONS TO CLIENTS SEEKING FINANCING: Licensees should not hold themselves out as experts in lending or attempt to influence lenders into making a loan. Agents should encourage their buyer clients to consult a reputable lender, to become informed about the terms and the risks associated with the loans they are considering, and to recognize the signs of predatory lending. Those signs include the following examples: high interest rates and fees, large future costs (high-risk adjustable rate mortgages with payments that rise substantially after a short introductory period), over-valued property (inflated appraisals can result in the borrower owing more to the bank than the home is worth), barriers to refinancing (high prepayment penalties), no down payment loans (loans that may be split into two mortgages, with one having a much higher cost), and unethical document management (lender who requires borrowers to sign blank documents.)

CONTRAST CMA, BOV, AND APPRAISAL: A CMA is done by an agent to assist a seller client in pricing a property or a buyer client in evaluating the appropriate price to offer. Agents may sometimes be called upon by a lender (not a client) to perform a Broker Opinion of Value (BOV), also known as a Broker Price Opinion (BPO). This may be done in the context of a short sale or otherwise. A CMA or

BOV/BPO is an informal estimate of market value, based on comparable sales in the neighborhood. By contrast, an appraisal is a formal estimate or opinion of property value, performed by a state licensed or certified professional appraiser and supported by the presentation and analysis of detailed data.

PRICE/SQUARE FOOT: The price per square foot is determined by dividing the sale price by the number of square feet of living space (also known as the Gross Living Area). Example: a 2,000 sf house that sells for \$200,000 has a price/sf of \$100. This represents only a rough estimate of value, however, because there are many variables to consider beyond the total square footage (detached buildings, garages, pools, superior construction materials, amenities such as appliances and upgrades, etc.).

GROSS RENT & GROSS INCOME MULTIPLIERS: For income production property the agent might want to use the gross income/gross rent multiplier to help establish a listing price or an offer price for a client. For a more detailed discussion on GRM, see Valuation and Market Analysis: Methods of Estimating Value/Appraisal Process.

PRORATIONS: A proration is a proportionate distribution of certain expenses between the property buyer and seller at closing, such as homeowner's association dues, utilities, taxes and rents. Borrower's monthly interest on his new loan is also prorated so that he will not be charged on the loan before the day of settlement.

When doing proration problems, unless instructed otherwise, you can use a 360-day year and a 30- day month

FOR EXAMPLE: Seller paid the yearly county taxes of \$720. Closing was held on October 10. How much should the seller be reimbursed for county taxes at closing?

Solution: (annual county tax/360 days) x number of days after closing = reimbursed amount.
 $(720 / 360) \times 80 = \160

TOTAL MONEY NEEDED BY BUYER AT CLOSING: Frequently, a buyer will ask the agent how much the buyer should bring to closing. The answer is a matter of simple math.

FOR EXAMPLE: Buyer entered a contract to purchase seller's house for \$247,000. She was getting loan to finance 90 percent of the purchase price. Her closing costs were estimated by the lender to be \$1225. She had already placed a deposit on the property of \$5000. How much does buyer need to bring to closing?

Purchase price – amount financed + closing costs – deposit already paid = amount needed to bring to closing. $247000 - (.9 \times 247,000) + 1225 - 5000 = \$20,925$

MORTGAGE CALCULATIONS: Mortgages entail a variety of calculations and potential story problems relating to real property financing.

1. Down Payment/Amount to be Financed: In order to qualify the buyer for a loan, the lender requires the buyer to have a certain amount of money invested in the property. This amount, the down payment, is the difference between the amount the lender is willing to finance and the purchase price.

FOR EXAMPLE: The purchase price of John's house is 275,000.00. The lender is requiring John to put 10 percent down on the property. How much is John's the down payment and how much is the amount financed?

Down payment: $10\% \times \$275,000 = \$27,500$
 Amount financed: $90\% \times \$275,000 = \$247,500$

2. Interest Rates/Interest Amounts: Interest is the cost of money. A borrower's interest rate is stated in a note and is expressed as an annual rate.

Sam bought a house for \$335,000. He got an interest rate of 5.5%, on a 90% loan for 30 years. His monthly payment is \$1711.88. How much interest did Sam pay the lender in his first payment?

First, you need to figure out how much the loan is:

LTV ratio X sales price = loan amount
 $.9 \times \$335,000 = \$301,500.$

Next, you need to find the amount of annual interest Sam pays:

Loan amount (principal balance) X annual interest rate = annual interest
 $\$301,500 \times .055 = \$16,582.50$

Then, you must determine what the first month's interest would be:

Annual interest / 12 = monthly interest.
 $\$16,582.50 / 12 = \1381.88 interest paid in first monthly payment.

3. Amortization/Monthly Installment Payments: On the exam, you may be asked to create part of an amortization schedule to show what the monthly payments would be (interest and principal) for a few months or to show what the principal balance would be after a few months. Using the example above:

What are Sam's principal and interest payments (installment payments) for 3 months?

What is the principal balance of the loan owed at by Sam the end of 3 months?

First month's principal, interest and principal balance:

Monthly payment - month's interest = amount paid towards principal
 $1711.88 - 1381.88 = 330.00$ first month's principal
 Principal balance - amount paid toward principal = new principal balance
 $\$301,500 - \$330.00 = \$301,170$

Second month's principal, interest and principal balance:

Loan balance X annual interest rate = annual interest
 $\$301,170 \times .055 = \$16,564.35$
 $\$16,564.35 \div 12 = \1380.36 second month's interest
 $\$1711.88 - \$1380.36 = \$331.52$ second month's principal
 $\$301,170 - \$331.52 = \$300,838.48$ principal balance at the end of second month

Third month's principal interest and principal balance:

$\$300,838.48 \times .055 = \$16,546.12$
 $\$16,546.12 \div 12 = \1378.84 third month's interest
 $\$1711.88 - \$1378.84 = \$333.04$ third month's principal
 $\$300,838.48 - \$333.04 = \$300,505.44$ principal balance at end of third month

	Payment	Principal	Interest	Balance
Month 1:	\$ 1711.88	\$330.00	\$1381.88	\$301,170.00
Month 2	\$1711.88	\$331.52	\$1380.36	\$300,838.48
Month 3	\$1711.88	\$333.04	\$1378.44	\$300,504.44