

PSI Topic Exam Questions

The following questions serve as additional practice for the PSI exam. The answers/explanations are located in the back of this supplement.

Property Law

1. Title to real estate can be transferred under the terms of all of the following documents except:
 1. A deed
 2. A living will
 3. A living trust
 4. A simple will

2. A property is sold and the seller's lender agrees to release its lien, even though the lender will receive less than the full outstanding balance of the loan. This is known as:
 1. A short sale
 2. Intestate succession
 3. A refinance
 4. Loan to value ratio

3. Victor Vendee purchased a home from Veronica Vendor under a land installment contract. Victor has not made any required monthly payments to Veronica for over 4 months. Assuming applicable state law allows, Veronica has the following choices available to her as a remedy for Victor's contract breach:
 1. Send Victor a notice of foreclosure
 2. Send Victor a notice of forfeiture
 3. 1 only
 4. 1 and 2

4. Dan has a loan secured by his home. Dan's lender is Bank Trust Company (BTC). Dan has failed to make several mortgage payments to BTC and, as a result, BTC has begun to send collection notices. If Dan files for bankruptcy, BTC must:
 1. Send Dan a notice of acceleration before it can continue its collection efforts
 2. Send Dan a notice of foreclosure before it can proceed with foreclosure
 3. Send Dan a notice of forfeiture
 4. Stop all collection activity during the pendency of Dan's bankruptcy petition

5. Janet recently passed away, and her will was submitted to probate. Her probate estate consists of:

1. All of Janet's personal property
2. All of Janet's real estate
3. All of Janet's real estate and personal property
4. All of Janet's personal and real property that her executor chooses to include in the probate estate

6. Bob, Barry, and Bonita Barnes have inherited a farm from their father under the terms of his will. Bonita was named as executor. The estate attorney told the Barnes family that the probate process could take up to one year. All three Barnes children agree to sell the property as soon as possible. Bonita:

1. Can join Bob and Barry in conveying the property to a third party during the probate process
2. Can sell the property as executor and keep the proceeds for herself
3. Must not allow the sale of the farm until the probate process is complete
4. Cannot profit from the sale of the farm because she is the executor

7. Howard Development Conglomerate (HDC) purchased a warehouse and is planning to tear it down to build a shopping mall. The Environmental Protection Agency has just sent a letter to HDC stating that some hazardous waste was buried on the site of the warehouse during World War II. In the letter, the EPA states that it plans to charge HDC for the costs of the cleanup efforts. HDC's general counsel has informed HDC's president that HDC is unlikely to have to pay for the cleanup costs. If he is correct, it would most likely be because:

1. The statute of limitations has run out of claims for cleanup of hazardous wastes from old WWII-era dump sites.
2. HDC had a Phase I environmental study done which showed no likelihood of contamination and therefore HDC can avail itself of the "innocent purchaser" defense
3. The Seller signed an affidavit saying the Seller was unaware of any contamination
4. HDC or its predecessor company did not own the property during the time of the contamination and therefore is not responsible for the cleanup costs.

8. An agent representing a buyer has just learned that the buyer is concerned that any house he may buy will have mold issues because the buyer's sister has developed severe health problems due to toxic mold found in her home. The agent should:

1. Encourage the buyer to put a contingency in the contract so he can be released from the contract if a mold inspector finds positive results for mold
2. Encourage the seller's agent to cover up anything that might look like mold before she takes the buyer through the property
3. Tell the buyer that a certain amount of mold is expected in any property and that she should not pass up a good deal because of his irrational fears
4. Refuse to show the buyer properties because the buyer is difficult to work with

9. Jeffrey was assessed a fine from his Home Owner's Association (HOA) because he painted his front door purple, and purple was not listed as an acceptable house/trim color in the HOA's rules and regulations. Jeffrey has appealed this to the court because he believes his neighbors have no right to decide what color he can paint his front door. If the court upholds the HOA's fine, it is most likely because:

1. Purple is an inappropriate color for house trim or front doors
2. The HOA offered to repaint the door in an acceptable color, but he turned them down
3. The HOA had the authority to dictate the colors of the door and to find him for failure to comply
4. Courts have no authority, under any circumstance, to review and overturn the decisions of an HOA to fine an owner

10. A commercial property which contains a laboratory and warehouse space should most likely be classified as:

1. A commercial condominium
2. Industrial
3. A nonconforming use
4. An environmental hazard

Contract Law

11. A contract clause that permits the buyer, upon the happening of an event, to be released from the contract without being legally obligated to fully perform, (purchase the property), is known as:

1. Default Clause
2. Acceleration Clause
3. Assignment Clause
4. Contingency Clause

12. Bernard, the Broker of Prairie Properties, Inc, has received a very large earnest money check from Barry, in connection with an offer Barry is making on a piece of property. Bernard must:

1. Deposit this check in the Prairie Property Inc company operating account
2. Deposit this check in the Prairie Property Inc company money market account
3. Deposit this check in the Prairie Property Inc Client Trust Account
4. Deposit this check in whichever account receives the highest interest rate

13. Juanita, a salesperson with PDQ Realty, has shown Julia three properties listed by Lots Realty, a real estate broker in a neighboring town. Julia wants to purchase a property and subdivide it into two lots. Julia asks Juanita, “Given your extensive experience in the real estate industry, which of the three properties in your opinion would be the best candidate for subdivision?” What should Juanita do?

1. Explain that property subdivision is not part of a real estate agent’s expertise and encourage Julia to get an expert opinion before putting an offer in on a property
2. Tell Julia her opinion – after all, it’s just an opinion
3. Tell Julia to ask the listing agent’s opinion
4. Tell Julia to ask Juanita’s broker’s opinion

14. Under the federal CAN-SPAM act, a broker would be in violation if:

1. He sent an email solicitation with a subject line indicating the broker was soliciting business
2. He sent an email solicitation with an “opt out” method so that the person receiving the emails could decline to receive future email solicitation
3. He sent an email solicitation that failed to provide the broker’s mailing address
4. He identified his brokerage by name as the sender of the email solicitation

15. A broker is conducting a training class for his agents on the proper handling of property condition disclosure forms required under state law to be provided by the seller to the potential buyer. She should advise her agents:

1. That the agent should fill out all property disclosure forms for the sellers in order to save time and promote efficiency
2. That if the seller completes a property disclosure form and gives it to the potential buyer, the agent has no liability concerning disclosure of material property defects
3. That the agent should familiarize themselves with the state’s property disclosure laws and advise the sellers that the sellers has obligations under such laws
4. That the agent should fill out the property disclosure forms for the seller so that the property will be portrayed in the most favorable manner possible

16. If a buyer purchases a home warranty for a resale home, that warranty:

1. Protects the agent from being sued for failure to disclose material defects
2. Protects the seller from being sued for failure to disclose material defects
3. Covers all repairs to all appliances and systems in the home that the buyer might need during his first year of ownership
4. Covers some repairs to some appliances and systems in the home for the first year of the buyer’s ownership, after the payment of a deductible

17. Nelda, a new agent, has just previewed a property that her broker has been asked to list. She has come back to her broker to discuss the property. She reports to him that the seller pointed out the following: a rip in the upstairs carpet, a shed in the wooded backyard that belongs to a neighbor but is partially built on the seller's property, a hole in the wall in the master closet, and a crack in the kitchen counter.

1. None of these are material facts about the property
2. They must disclose all of these facts to the potential buyers
3. They must disclose the encroaching shed
4. They must disclose the crack in the kitchen counter

Finance

18. Benny and Phyllis are buying a new home and they have applied for a loan. Their loan officer asked them for paperwork, including a copy of their signed contract, their pay stubs, their tax returns, and bank statements. The purpose of collecting all of this paperwork is:

1. So the lender can determine whether Benny and Phyllis received the best deal they could for the property
2. So the lender can determine whether Benny and Phyllis make enough money to qualify for the loan
3. Both 1 and 2
4. Neither 1 or 2

19. Chas is applying for a jumbo loan to finance a home purchase. He is most likely applying for a jumbo loan because:

1. Chas cannot afford the high interest rates charged on conforming loans
2. The home seller is requiring Chas to apply for a jumbo loan as a condition of the contract
3. Chas is borrowing more money to finance his new property than allowed under the lending limits of conforming loans in the area where his new home will be located
4. Chas makes too much money to qualify for a conforming loan

20. An example of a subprime loan is:

1. An FHA loan
2. A VA loan
3. A reverse mortgage
4. A negative amortization loan

21. Jeff's real estate agent has suggested that Jeff may qualify for the city's down payment assistance program. Jeff most likely:

1. Owns several investment properties
2. Is a first time homebuyer
3. Has an income that exceeds the average income for city residents
4. Has bad credit

22. Shady Bank routinely engages in predatory lending practices. An example of a lending practice that would not be considered to be predatory would be:

1. Charging a prepayment penalty for the first 10 years of the loan
2. Charging a point in order to lower the interest rate on the loan
3. Requiring the borrower to buy credit life insurance as a condition of the loan
4. Approving a loan without determining if the borrower is qualified to pay the monthly payment

23. Andrew is buying a home for \$400,000. He is getting a loan that his lender told him is 75% LTV. The property appraisal has come in at \$410,000, and the settlement agent has told him his closing costs would be \$10,000. How much should his real estate agent suggest he bring to closing?

1. \$310,000
2. \$317,500
3. \$110,000
4. \$112,500

Property Law: Answers & Explanations

1. Answer: 2 - a living will

Explanation: A deed is used to transfer title from a grantor (usually the seller) to a grantee (usually a buyer). In any will, including a simple will, a testator can name the person he wishes to transfer his real estate to upon his death. A living trust is a “will substitute” that a person that can use to transfer the title of property upon death. A living will does not involve the disposition of real or personal property. It is a document in which a person names another person to be responsible for decisions relating to termination of life support. Therefore, 2 is the correct answer here since all of the other documents can be used to transfer title to real estate.

2. Answer: 1 - a short sale

Explanation: In a short sale, the lender agrees to release the lien, thus enabling the seller to sell the property even though the proceeds of the sale will not be enough to fully satisfy the lien. Intestate succession is when a person dies without a will and the laws of the jurisdiction determine who will inherit the property. A refinance is not a sale of the property—the owner pays off the entire amount owed to the lender, replacing the loan with a new loan. Loan to value ratio is the relationship of the amount of the loan to the value of the property. It does not involve the release of a lien.

3. Answer: 4 - 1 and 2

Explanation: If applicable state law allows, a vendor under a land installment contract can foreclose under a vendor’s lien theory, or the vendor can declare forfeiture and regain the property. Therefore, 1 and 2 are both acceptable.

4. Answer: 4 – Stop all collection activity during the pendency of Dan’s bankruptcy petition

Explanation: When someone files a petition for bankruptcy protection, a creditor must cease all collection activity until the petition is discharged. Therefore, pursuing any kind of collection action, such as acceleration or foreclosure, would be improper. A notice of forfeiture would be a form of collection activity, but would not be sent by BTC in any event since forfeiture is used for the breach of a land installment contract, not the breach of a mortgage contract.

5. Answer: 3 – All of Janet’s real estate and personal property

Explanation: The probate estate consists of all of the decedent’s personal and real property. The executor named in the will does not have the right to choose what property is part of the probate estate.

6. Answer: 1 – Can join Bob and Barry in conveying the property to a third party during the probate process

Explanation: Bonita cannot keep the profits from the sale of the farm for herself because we are told all three siblings inherited the property. Therefore, 2 is incorrect. Bonita is allowed, however, to keep her share of the profits from the sale, even though she is also the executor, so D is incorrect. Bonita’s main responsibility as executor is to make sure all claims against the estate are satisfied. Bonita need not wait until the probate process is over to allow the sale of the property. Bonita can arrange for the three siblings to transfer the property to a buyer (or give it away) during the probate process, as long as she makes sure there is a way to satisfy any claims against the estate that could otherwise be satisfied with the proceeds from the sale of the farm (ex. holding some or all of the proceeds from the sale in escrow until the end of the probate process, or determining the other assets in the estate are sufficient to satisfy likely claims).

7. Answer: 2 - HDC had a Phase I environmental study done which showed no likelihood of contamination and therefore HDC can avail itself of the “innocent purchaser” defense

Explanation: If a buyer gets a Phase I environmental study done which states there is no likelihood of contamination, that buyer can avail itself of the “innocent purchaser” defense under the CERCLA and will likely not have to pay the cleanup costs associated with hazardous waste on the site. In the absence of such a study, HDC as the present owner would be liable for the costs of the cleanup on its land, even though HDC may not have owned the property when the contamination occurred, and even though the waste was there for a very long time. Accepting an affidavit from the seller stating there is not a likelihood of contamination will not excuse the present owner from liability for the cleanup costs.

8. Answer: 1 - Encourage the buyer to put a contingency in the contract so he can be released from the contract is a mold inspector finds positive results for mold

Explanation: Whenever a buyer is concerned about a property condition for which tests can be done, such as mold, radon, asbestos, carbon monoxide, etc, the agent should encourage the buyer to discover whether the property does in fact have that condition. This way the buyer can make an informed decision as to whether or not he wants to buy the property or continue looking. It is never a good idea to encourage the seller to hid a property condition, and, depending on the circumstances, such a suggestion could be a violation of the license law or could constitute fraud. Many properties contain levels of harmless mold that would be perfectly acceptable to a buyer, but on some occasions, the mold may be toxic. An agent should not take the risk that the mold is harmless.

9. Answer: 3 - The HOA had the authority to dictate the colors of the door and to find him for failure to comply

Explanation: Typically, HOAs have the authority in their deeds of declaration and their bylaws to pass rules and regulations concerning the acceptable paint colors for the houses and other aesthetic matters. As long as the HOA had the authority to pass such a regulation and the fine was properly imposed by the HOA by following the property procedures, the court will uphold the HOA’s decision. However, the court always has the authority to review an HOA’s rules and its implementation of the rules to ensure the HOA does not exceed its authority. The HOA has no obligation to help the homeowner comply by offering to paint.

10. Answer: 2 – Industrial

Explanation: Any property that contains a warehouse, lab, or manufacturing buildings is classified as industrial property. A condominium is a method of owning property that is chosen at the time of the development of the property and is governed by state “horizontal property” acts. Although a warehouse and a lab might be developed and sold as a commercial condominium, there is no requirement that they be developed and sold that way. A nonconforming use is a use that is inconsistent with the current zoning. There is no indication in the question that the lab and warehouse are located in an area that is not zoned to allow such uses. Although there is a lab here, there is no indication that it poses any environmental hazard.

Contract Law: Answers & Explanations

11. Answer: 4 – Contingency Clause

Explanation: Many real estate contracts contain contingency clauses. They relieve the buyer from the obligation to purchase the property (or the seller the obligation to sell the property) upon the happening of an event or the failure of an event to occur during the executory period of the contract. Common contingency clauses include finance contingency and home inspection contingency. A default clause sets forth the remedies available to the parties in the event of a breach. An assignment clause governs

the right of the seller or the buyer to transfer the obligation to perform (to sell or to buy) to another party. An acceleration clause, which could be found in an installment sales contract and is used for mortgage contracts, sets forth the events (usually missed payments) which will trigger the full performance (immediate payment) under the contract.

12. Answer: 3 - Deposit this check in the Prairie Property Inc Client Trust Account

Explanation: Client monies such as earnest money deposits and security deposits must be deposited in a trust (escrow) account. If Bernard were to deposit it in any other account, he would be commingling funds and would risk losing his broker's license.

13. Answer: 1 - Explain that property subdivision is not part of a real estate agent's expertise and encourage Julia to get an expert opinion before putting an offer in on a property

Explanation: Juanita, Juanita's broker, and the listing agent are not qualified to make a determination as to whether the land is suitable to subdivide or the best lot to subdivide, unless they are also licensed engineers or surveyors. Clients will frequently try to rely on agents for opinions rather than pay an expert. Juanita should not be swayed by the flattery. She is not supposed to be an expert on subdivision. The fact that she refers the buyer to an expert in the appropriate field does not diminish her value as a real estate agent.

14. Answer: 3 - He sent an email solicitation that failed to provide the broker's mailing address

Explanation: The Broker must include his mailing address on any spam email, or he would be in violation of federal law. The other answers all set forth requirements of the law, so the broker would be in violation if he did NOT do them.

15. Answer: 3 - That the agent should familiarize themselves with the state's property disclosure laws and advise the sellers that the sellers has obligations under such laws

Explanation: Seller property condition disclosure forms should never be filled out by the agent. It is the seller's responsibility to do so since the seller, not the agent, is the most familiar with the property. The seller property disclosure forms do not relieve agents of their independent obligations to disclose material property defects to buyers.

16. Answer: 4 - Covers some repairs to some appliances and systems in the home for the first year of the buyer's ownership, after the payment of a deductible

Explanation: The home warranties do not relieve the sellers and their agents from the duties to disclose material property defects. The warranties cover some, but not all, of appliances and systems in the home, after payment of a deductible.

17. Answer: 3 – They must disclose the encroaching shed

Explanation: Normally, an agent would not be responsible to determine if there are any encroachments, such as the shed on the property. However, here, the seller has informed Nelda of the encroachment of the shed, and Nelda must inform any potential buyers. The carpet tear, hole in the closet, and kitchen counter are all property conditions that the potential buyer can see, and, even if hidden, are "defects" that do not materially affect the value of the property. Therefore, these issues would not need to be pointed out to prospective buyers.

Finance: Answers & Explanations

18. Answer: 2 - So the lender can determine whether Benny and Phyllis make enough money to qualify for the loan

Explanation: The purpose of the loan application process is to make sure the buyers can afford the property. Another purpose is to make sure the collateral (the house) is worth what Benny and Phyllis have offered for it. However, this does not mean that the lender must make sure they got the best deal they could—only that the house appraises for the price which was offered.

19. Answer: 3 - Chas is borrowing more money to finance his new property than allowed under the lending limits of conforming loans in the area where his new home will be located

Explanation: Fannie Mae and Freddie Mac set the limits of the conforming loans in particular geographic areas. If someone needs to borrow an amount in excess of those limits, he must get a “jumbo” loan. Usually, a jumbo loan has a slightly higher interest rate than a conforming loan. It is likely that if Chas qualifies for a jumbo loan, he would also qualify for a conforming loan. In a purchase transaction, the seller seldom dictates that the buyer must obtain a particular loan product.

20. Answer: 4 – A negative amortization loan

Explanation: FHA and VA loans are not subprime loans. They are government guaranteed (VA) or government insured (FHA) loans. A reverse mortgage “pays” the homeowner each month using the equity in the home. It is not considered a subprime loan. A negative amortization loan allows the borrower to pay a mortgage payment each month that is less than the interest due on the loan (which ultimately causes the borrower to owe more on the loan than he originally borrowed).

21. Answer: 2 – Is a first time homebuyer

Explanation: Down payment assistance programs are usually designed for first time homebuyers with a lower income than the median income in the area where the home is located. If Jeff already owns other properties, he would not likely qualify for down payment assistance. A bad credit score is not a requirement for a down payment assistance program and could cause an applicant to fail to qualify for such assistance.

22. Answer: 2 – Charging a point in order to lower the interest rate on the loan

Explanation: Charging points to lower the interest rate of the loan is a common industry practice and is not predatory lending. Prepayment penalties are permitted but cannot be more than 5 years under federal law. A lender who requires the borrower to purchase credit life insurance as a condition of the loan is considered to be “packing” the loan, which is a predatory practice. A lender that lends money without qualifying the borrower is also engaging in predatory lending.

23. Answer: 3 - \$110,000

Explanation: The purchase price is \$400,000 and the appraisal value is \$410,000. The lender is lending at 75% LTV. The value component of the LTV formula is the lower of the purchase price or the appraisal value. The purchase price is \$400,000 and the loan amount is 75% of that purchase price. Therefore, Andrew will have to make up the 25% of the price that the loan does not cover, plus the closing costs.

$\$400,000 \times .25 + 10,000 = \$110,000$