

FLORIDA PRO REAL ESTATE ACADEMY

2343 Vanderbilt Beach Rd. Suite 620 Naples, Florida 34109

FLORIDA REAL ESTATE EXAM CRAM

visit

www.floridapronow.com



**SUMMARY
GUIDE**

Instructor Tim Guerrette

Broker/ REALTOR®



LIVE Online

UNIT 1

- Real estate brokers provide specialized service for others in return for compensation in the form of a commission, fee, or other valuable consideration.
- Real estate professionals provide expert knowledge of property transfer, market conditions, and how to market real estate and businesses.
- The five major sales specialties are (1) residential, (2) commercial, (3) industrial, (4) agricultural, and (5) businesses.
- Farm area refers to a selected and limited geographic area to which a sales associate devotes special attention and study. Target marketing involves expertise in locating prospects.
- Business opportunity brokerage involves the sale or lease of an existing business. A real estate license is required to sell and lease business opportunities for others.
- Property management is a professional service conducted by a person or company hired to maintain and manage property on behalf of property owners. Absentee owners are property owners who do not reside on the property and who often rely on a professional property manager to manage the investment.
- Federal and state laws require appraisals that involve a federally related transaction to be prepared by a state-certified or licensed appraiser.
- When preparing appraisals, Florida law requires appraisers and real estate licensees to abide by the Uniform Standards of Professional Appraisal Practice (USPAP). The USPAP is a set of guidelines (standards of practice) to follow when conducting appraisal services. Real estate licensees may not represent themselves as state-certified, registered, or licensed appraisers unless they also hold those licenses.
- A comparative market analysis (CMA) is a marketing tool that is prepared for a potential buyer or seller based on recent sales of similar properties, properties currently on the market, and recent expired listings. A CMA may not be referred to or represented as an appraisal.
- A broker's price opinion (BPO) is a broker's written opinion of the value of real property. A broker may charge a separate fee for a BPO, provided it is not used in connection with originating a federally related loan and it is not labeled as an appraisal.

- A mortgage loan originator (MLO) must be licensed to receive compensation for taking a residential mortgage application or negotiating the terms of a residential mortgage loan. A real estate licensee may not accept a referral fee from a lender unless the real estate licensee is also licensed as a mortgage loan originator.
- Developers must submit a subdivision plat map to the local planning board (commission). The streets, parks, and other improvements for public use are typically dedicated to the local municipality. Dedication is the gift of land by an owner to a government body for public use. The developer installs the improvements and the local municipality agrees to maintain the improvements as part of the subdivision plat approval process.
- The three categories of residential construction are (1) speculative (spec) homes, that are built before being seen, (2) custom homes, built following blueprints by purchaser, and (3) tract homes, premade model homes to be built after purchaser selects one.
- A REALTOR® is a real estate licensee who is a member of a local board (or association) of REALTORS® and is affiliated with the Florida Realtors® and NAR.
- Rental agents typically find a tenant for property and collect a fee. Rental agents (or leasing agents) act as intermediaries between a potential tenant and the property owner seeking to acquire a tenant.
- Real estate licensees who engage in the sale, purchase, or lease of businesses are called business brokers.

UNIT 2

- A sales associate is a person who performs real estate services for compensation or other consideration but does so under the direction, control, and management of an active broker or owner-developer.
- A broker is a person who, for another and for compensation or other consideration, performs real estate services.
- A broker associate is an individual who meets the requirements of a broker but who chooses to work in real estate under the direction (employ) of another broker.
- An owner-developer is an unlicensed entity that sells, exchanges, or leases its own property. Sales staff must hold active real estate licenses to be paid commission. The sales staff is exempt from licensure if paid strictly on a salaried basis.
- The DBPR is required to waive the initial license fee for eligible low-income applicants.
- The DBPR waives the initial licensing fee for a member of the armed services that has served on active duty. The fee waiver also applies to a spouse who was married to the active duty member during a period of active duty, and to a surviving spouse of a member of the armed services who at the time of death was serving on active duty.
- The DBPR waives the application fee, the initial license fee, and the unlicensed activity fee for military veterans and their spouses who apply for a real estate license within 60 months after honorable discharge from the armed services.
- To become a sales associate, applicants must complete (1) a 63-hour prelicense course with a score of at least 70; and (2) the application process, including the DBPR license application, fingerprints submission, background check information, affidavit of honesty (attest statement), initial license and application fee payment, and passage of the state license exam with a score of at least 75.
- Applicants must be at least 18 years of age and have earned a high school diploma or its equivalent. U.S. citizenship is not required, and applicants do not have to be Florida residents. Applicants must possess a Social Security number. A U.S. Social Security number is required by the state to apply for a real estate license. The Social Security number is used to determine whether applicants are in compliance with child support obligations.
- Resident licensees who move out of the state must notify the Commission within 60 days of the change in residency.

- Sales associates must complete a 45-hour post-licensing course before the expiration of their initial license. Brokers must complete a 60-hour post-licensing course during the initial license period. Failure to complete the post-license education before the expiration of the initial license will cause the license to become null and void.
- Fourteen hours of continuing education each license period is required for all real estate licensees following the initial license period. The continuing education requirement includes a three-hour core law course and a three-hour ethics and business practices course.
- Individuals who have earned a four-year degree or higher in real estate are exempt from the sales associate and broker prelicense courses, as well as the post-license requirement. They are not exempt from the continuing education requirement.
- Florida-licensed attorneys who are active members of The Florida Bar are exempt from the sales associate prelicense course and from continuing education. They are not exempt from the broker prelicense education and the post-license requirement.
- To become a broker, applicants must complete a 72-hour prelicense course with a score of at least 70; have at least 24 months of active real estate licensure during the previous five years; and successfully pass the state broker exam. Applicants who hold a Florida sales associate license must also complete the sales associate post-licensing education before being eligible for a broker license.
- Real estate services include any real estate activities involving compensation for performing the service for another. Compensation is anything of value paid or promised to be paid to an individual for performing any service of real estate.
- Applicants are not required to disclose a personal bankruptcy.
- New licensees must not begin working until the DBPR website indicates that the license has been changed to active status under the proper broker or brokerage entity.
- Reciprocity is the issuing of a Florida real estate license to active duty members of the U.S. armed forces who hold a valid real estate license in another state or a foreign jurisdiction. A spouse or a surviving spouse who holds a valid real estate license from another state or foreign jurisdiction, upon application, must also be issued a Florida license.
- Nolo contendere is a plea of no contest entered in a criminal court of law. The defendant does not admit or deny the charges, though a fine or a sentence may be imposed by the court.

- Individuals who rent lots in a mobile home park or recreational travel park and persons who sell cemetery lots are exempt from holding a real estate license. (Rentals in mobile home parks and recreational vehicle lot rentals along with cemetery lots are not considered real property.)
- Prima facie evidence is a legal term used to refer to evidence that is good and sufficient on its face (at first view) to establish a given fact or prove a case unless refuted by evidence to the contrary.

UNIT 3

- The DBPR is under the executive branch of the governor. Chapter 455, F.S., grants authority to the DBPR to investigate consumer complaints, issue subpoenas when conducting investigations, issue cease and desist orders to unlicensed individuals, and issue citations to individuals licensed by the DBPR.
- The chief administrator of the DBPR is the secretary of the DBPR, who is appointed by the governor, subject to confirmation by the state senate.
- The Commission consists of seven members: five professional (licensed) members and two consumer members who have never been licensed. Four of the professional members must have held active broker licenses during the five years preceding appointment. The fifth professional member must have been licensed as an active broker or sales associate for the two years preceding appointment.
- Members of the Commission are appointed by the governor, subject to senate confirmation, and are not employees of the DBPR.
- The Commission's powers are primarily executive, quasi-judicial and quasi-legislative. The FREC exercises its Executive powers to regulate and enforce the license law. FREC exercises its quasi-legislative powers when it adopts rules. FREC exercises its quasi-judicial powers when it hears complaints, disciplines licensees, imposes fines, and grants or denies recovery fund claims.
- There are two types of inactive status: voluntary and involuntary. A licensee who has qualified for a real estate license but who voluntarily chooses not to engage in the real estate business may request voluntary inactive status. Involuntary inactive status occurs when a licensee fails to renew an active or voluntary inactive license before the expiration date.
- A null and void license no longer exists. When an individual performs real estate services with a void license, that activity is considered unlicensed activity. A license becomes null and void when an involuntary inactive status has continued more than two years. When the FREC revokes a real estate license, the license becomes null and void. A license that is voluntarily relinquished by the licensee is canceled by the FREC without the involvement of disciplinary action. Once canceled, the license is null and void.
- If a broker's license is suspended or revoked, the licenses of the sales associates and broker associates registered under that broker are placed in involuntary inactive status. Once new employment is secured, the license status is changed to active.

- A licensee in good standing who is a member of the U.S. armed forces is exempt from license renewal provisions during active duty and for two years after discharge from active duty. The armed forces exemption is valid, assuming the service member is not actively engaging in real estate practices during the exemption period. This is another example of an ineffective license.
- Licensees must notify the DBPR within 10 days of a change in mailing address.
- “Multiple licenses” refers to those cases in which a broker holds more than one broker’s license.
- A group license is issued to a sales associate or a broker associate employed by an owner-developer (real estate developer) who owns properties in the name of various entities. A group license entitles the licensee to work for the separate sales projects owned by the owner-developer.
- When a licensee has been involuntary inactive for 12 months or less, they may satisfy the education requirement by completing 14 hours of FREC-approved continuing education. If for more than 12 months but less than 24 months, they are required to complete 28 hours of a Commission-prescribed reactivation education course
- Because of the fiduciary relationship between sales associates and their employers, the obligations of sales associates do not end with termination of employment. Sales associates are prohibited from disclosing confidential information about their former broker and are further prohibited from doing anything that might discredit a former employer or damage the goodwill of the employer’s business.

UNIT 4

- A person who delegates authority to another is the principal. A person who accepts the authority is the agent. An agent is authorized to represent and act for the principal. The agency relationship creates a fiduciary relationship with the principal. A fiduciary acts in a position of trust and confidence with the principal.
- A real estate licensee may act as a special agent with buyers or sellers. This occurs when the buyer or the seller, but not both, and the brokerage firm enter into a single agent relationship. In this relationship, the buyer or the seller is the principal and the broker is the agent.
- In all real estate transactions, there are three options concerning the role the real estate brokerage firm will assume: (1) transaction broker for the buyer and/or the seller, (2) single agent of either the buyer or the seller, and (3) nonrepresentation (or no brokerage relationship) for the buyer and/or the seller.
- Licensees may not operate as dual agents. A dual agent is a broker who represents both the buyer and the seller as a fiduciary.
- The duties and obligations in each type of brokerage relationship apply to all real estate transactions.
- A written disclosure is required for residential transactions when a single agent relationship or nonrepresentation is chosen. The single agency disclosure must be made before, or at the time of, entering into a listing agreement or an agreement for representation, or before the showing of property, whichever occurs first. The no brokerage relationship disclosure must be made before the showing of property.
- A residential sale is defined as the sale of improved residential property of four or fewer units, the sale of unimproved residential property intended for use as four or fewer units, or the sale of agricultural property of 10 or fewer acres.
- Under Florida law, it is presumed that all licensees are operating as transaction brokers unless another brokerage relationship is chosen. A transaction broker provides limited representation to a buyer, a seller, or both, but does not represent either in a fiduciary capacity or as a single agent, nor are the customers held responsible for the acts of the licensee. Meaning any confidential information learned about one party may not be given to another such as a higher or lower offer than stated asked price would be accepted.

- License law mandates that a real estate broker working in a no brokerage relationship capacity has three duties: (1) deal honest and fairly, (2) disclose all known facts that materially affect the value of residential real property that are not readily observable to the buyer, and (3) account for all funds entrusted to the licensee.
- License law mandates that a real estate broker working as a transaction broker has the duties required in a no brokerage relationship plus four additional duties: (1) use skill, care, and diligence; (2) present all offers and counteroffers; (3) exercise limited confidentiality; and (4) perform additional duties that are mutually agreed to.
- F.S. 475 mandates that a real estate broker working as a single agent has the duties required in a no brokerage relationship plus the first two additional duties required in a transaction broker relationship. Four duties apply exclusively to a broker working as a single agent: (1) confidentiality, (2) obedience, (3) loyalty, and (4) full disclosure.
- A real estate broker may change from a single agent relationship to a transaction broker relationship only with the express written permission of the principal. The principal must sign or initial the Consent to Transition to Transaction Broker disclosure before the change can occur. If both a buyer and seller are single agents in the same brokerage and want to sell the house to one another, this is only permissible once they both sign the consent to transaction broker notice.
- Brokers must retain brokerage relationship disclosure documents for five years for all residential transactions that result in a written offer to purchase and sell real property and all nonresidential transactions that use designated sales associates even if they failed to close.
- In a nonresidential transaction and where the buyer and the seller each have assets of \$1 million or more, the broker, at the request of the buyer and the seller, may designate two sales associates to be designated sales associates. In such situations, one sales associate acts as a single agent for the buyer and the other sales associate acts as a single agent for the seller. The broker is not considered a dual agent but rather a neutral party advising the designated sales associates to help facilitate the process. The buyer and the seller must sign the Designated Sales Associate disclosure listing the duties of a single agent and affirming that the buyer and the seller each have assets of at least \$1 million.

UNIT 5

- To have active status, a real estate broker is required to open an office and register it with the DBPR.
- The brokerage office sign must contain (1) the trade name (if applicable), (2) the broker's name, and (3) the words "Licensed (or Lic.) Real Estate Broker." If desired, the names of the sales associates and broker associates may be added below the broker's name(s), provided the appropriate title (sales associate or broker associate) appears after their name. A line or a space must separate the brokers' names from the associates' names.
- Blind advertising fails to disclose the license name of the brokerage firm and provides only a post office box number, telephone number, and/or street address.
- Point of contact information refers to the information provided on the internet for contacting a brokerage firm or individual licensee, including mailing addresses, physical street addresses, email addresses, telephone numbers, and FAX telephone numbers. The brokerage firm name must be above, below, or adjacent to point of contact information.
- Licensees who include their personal name in advertisements must use their last name as registered with the DBPR. Licensees who use their personal cell phone number in an ad must include the words direct, cell, or mobile so as not to give the impression that that is the brokerage number.
- A telephone solicitation is a telephone call placed for the purpose of encouraging the purchase of, or investment in, property goods, or services. Telemarketers (including real estate licensees) must search the National Do Not Call Registry before making telemarketing calls. Violators of the federal Telephone Consumer Protection Act may be fined up to \$16,000 per call. The penalty for violating Florida's Telemarketing Act is \$10,000 per call.
- An escrow account is an account for the deposit of money held by a third party in trust for another for safekeeping. Brokers may open escrow accounts in a Florida bank, a savings association, or a credit union. The broker must be a signatory on the escrow account. If the broker chooses not to open an escrow account, the funds may be held by a title company or in an attorney's trust account. If held by an attorney or title company, there is a ten day receipt protocol.
- Sales associates must deliver binder deposits to their broker-employer no later than the end of the next business day. Brokers must deposit the funds into their escrow account no later than the end of the third business day after the brokerage received the funds. (Count as 0, 1, 2, 3)

- If the broker's escrow account is an interest-bearing account, the broker must get written permission from all parties before depositing the funds. The written authorization must specify who is entitled to the interest earned. The broker may receive the interest.
- Brokers must maintain records of real estate transactions for five years, regardless of whether escrow funds were pledged (or two years after litigation, if beyond the five-year period).
- Commingling is the illegal practice of mixing a buyer's, seller's, tenant's, or landlord's funds with the broker's own money or mixing escrow money with the broker's personal funds or brokerage funds. Brokers are allowed to place up to \$1,000 of personal or brokerage funds in a sales escrow account or up to \$5,000 of personal or brokerage funds in a property management escrow account.
- Brokers must notify the FREC in writing of conflicting demands or of a goodfaith doubt within 15 business days. Brokers must institute one of the settlement procedures within 30 business days of receiving conflicting demands or of having a good-faith doubt. The four settlement procedures are (1) mediation, peace talks to an agreed on action, (2) arbitration, a disinterested third party makes the call, (3) litigation, court fight, and (4) escrow disbursement order, FREC's call.
- Some real estate brokerage entities offer prospective tenants a list of properties available for rent. Very few brokerage firms sell the information; however, if the brokerage charges a fee for the rental information, the tenant must receive a receipt that outlines two refund provisions: (1) if the rental information is in error, 100% refund; and (2) if the prospective tenant is unable to find a suitable rental, a 75% refund. The request for a refund must be made verbally or in writing within 30 days following the day of purchase.
- Failing to provide accurate and current rental information for a fee is a first-degree misdemeanor. The penalty for a first-degree misdemeanor is a fine of not more than \$1,000 and/or up to one year in jail.
- A kickback occurs when a broker receives money from someone other than the buyer or the seller, such as for referring a buyer or a seller to a particular vendor for services. Buyers and sellers must be fully informed before the payment.
- Florida law prohibits a real estate licensee from paying money to an unlicensed person for the referral of real estate business. Apartment complex owners may give no more than \$50 to a tenant for the referral of a new tenant.

- Florida law allows the sharing of part of the commission with the buyer or the seller in a real estate transaction, provided the rebate is disclosed to all interested parties.
- Types of business entities that may register as a brokerage entity include the following: sole proprietorship, general partnership, limited partnership, limited liability partnership, corporation, and limited liability company.
- An ostensible partnership (or quasi-partnership) is created when the actions of two or more persons create the appearance that a partnership exists. Licensees who operate as ostensible partners may be subject to license suspension.
- Sales associates and broker associates may not be members of the board of directors or officers of a real estate brokerage corporation.
- Sales associates and broker associates are not allowed to register as general partners of a real estate brokerage general or limited partnership.
- Business entities that may not register as real estate brokers include the following: corporation sole, joint venture, business trust, cooperative and unincorporated association.
- The three exceptions to conflicting demands are: HUD contracts that use their own rules, purchases of condo units that fall under the Condominium Act, and lastly, if a buyer fails in good faith to satisfy contract terms, they may be reimbursed their deposit contrary to the seller's wishes, however seller's approval is recommended.
- If the buyer and seller agree to the dispersion of escrow funds after FREC has been notified of conflicting demands, the broker must notify FREC that the conflict has been settled with 10 days.
- The three exceptions to the Telemarketing Act are (1) An agent has an interested buyer may call, (2) An agent may contact a former customer within 18 months of concluded business, and (3) An agent may contact a potential customer within three months of an inquiry, application, or open house registry.
- Agents may accept a post-dated check with the seller permission, secure it in a safe place till it becomes current, and deposit it. A broker will only be held liable for nonpayment of an escrow check if the broker's culpable negligence caused the issue.
- Unlicensed personal assistants may not perform any of the eight services of real estate nor conduct listings.
- Sales and broker associates must register under their legal last names, not the trade or brokerage name. Associates may form an LLC for tax purposes and add the designation to their legal licensed name.

UNIT 6

- Seven steps comprise the complaint process:
- A complaint (an alleged violation of a law or rule) is filed with the DBPR.
- If the complaint is legally sufficient (Containing facts indicating that a violation of Florida statute, DBPR rule, or FREC rule has occurred), the DBPR conducts an investigation and notifies the licensee-respondent. The complaint and the information obtained during the investigation are kept confidential until 10 days after probable cause has been found to exist. The DBPR's investigative report is forwarded to the probable-cause panel. In rare situations deemed to be too serious to allow the licensee to continue to practice real estate while the complaint process proceeds, the DBPR secretary may issue a summary (emergency) suspension.
- The probable-cause panel consists of two FREC members. The probable-cause panel determines whether probable cause exists.
- If probable cause is found, the DBPR issues a formal (administrative) complaint. An Election of Rights is mailed with the complaint to the licensee. The licensee has 21 days to (1) not dispute the allegations of fact and request an informal hearing, (2) dispute the allegations of fact and request a formal hearing, or (3) not dispute the allegations of fact and waive the right to be heard. The licensee respondent may enter into a stipulation (an agreement as to the facts of the case and the penalty reached between the attorneys for the DRE and the licensee instead of having the matter heard in court or by FREC).
- If there are no disputed facts, the Commission (probable-cause panel members are excused) decides the case and imposes the penalty in an informal hearing held during a regular FREC meeting. If the licensee-respondent requests a formal hearing or if the respondent disputes the allegations, the case is heard by a Florida administrative law judge in a formal hearing. The administrative law judge prepares a recommended order.
- The FREC imposes the final order (members of the probable-cause panel do not participate). The final order becomes effective 30 days after it has been entered.
- The licensee-respondent may appeal the final order.
- The FREC may impose an administrative penalty for violations of law or rules and regulations. The DBPR may issue a citation for violations that are of no substantial threat to the public. Such citations carry fines ranging from \$100 to \$500. The DBPR may issue a notice of noncompliance as a first response to a minor violation. The FREC may punish more serious offenses by issuing fines of up to \$5,000 for each violation of Chapters 455 and 475 and/or a suspension of up to 10 years. In extreme cases, the FREC may revoke a license.

- Failing to provide accurate and current rental information for a fee is a misdemeanor of the first degree, punishable in a court of law by a fine of up to \$1,000 and/or by imprisonment of up to one year.
- Misdemeanors of the second degree are punishable by a fine of up to \$500 and/or by imprisonment of up to 60 days.
- Falsifying a license application, unlicensed activity, and theft or reproduction of a license exam are felonies of the third degree. The penalty, per offense, is a fine of up to \$5,000, up to five years in jail, or both.
- Individuals can be reimbursed from the Real Estate Recovery Fund for monetary damages as a result of license law violations by a licensee. Claims are limited to \$50,000 per transaction or the unsatisfied portion of a judgment claim, whichever is less, and no more than \$150,000 against one licensee involving multiple transactions. The license is automatically suspended upon payment from the fund until the fund is reimbursed (EDO exception).
- Licensees can only make a claim against the recovery fund if they acted in the sole capacity of a buyer or seller in the transaction and were harmed as a result of the hired licensee's actions.
- Florida Statute requires licensees to inform FREC, in writing, within 30 days of being convicted, found guilty, entered a plea of nolo contendere (no contest), or a plea of guilty, regardless of adjudication, to a crime in any jurisdiction.
- All imprisonment penalties or fines (except administrative fines) must be obtained in a court of law because the Commission lacks the authority to assess such penalties.
- Conversion is a licensee's personal use or misuse of client (or customer) monies. This includes a broker mishandling the brokerage funds and not keeping enough money set aside to pay their agents for their work.
- A licensee has 15 days to act to correct a minor violation or the licensee may be issued a citation or be subjected to a disciplinary proceeding. Licensees receiving a citation have 30 days to accept or reject the alleged violation(s), as specified in the citation.
- The Real Estate Recover Fund will not reimburse attorney's fees, court costs, treble (triple) damages, or punitive damages. Only actual damages.

UNIT 7

- The Civil Rights Act of 1866 prohibits racial discrimination in all real estate transactions without exception.
- The Jones v. Mayer case upheld the Civil Rights Act of 1866.
- The Civil Rights Act of 1968 (called the Fair Housing Act) and amendments, protects people from discrimination because of their race, color, religion, sex, handicap status, familial status, or national origin in the sale or rental of housing or residential lots. The Fair Housing Act does not protect individuals based on age, occupation, marital status, or sexual orientation.
- Several exemptions from the Fair Housing Act apply to individuals selling or renting their own property. However, if racial discrimination occurs, the individual is in violation of the Civil Rights Act of 1866. If a real estate licensee is involved in the transaction, the Fair Housing Act applies.
- Prohibited activities under the Fair Housing Act include refusing to rent to, sell to, negotiate with, or deal with a member of a protected class; quoting different terms or conditions for buying or renting; advertising that housing is available only to people of a certain race, color, religion, sex, national origin, handicap status, or familial status; denying membership in or use of any real estate brokerage services, brokers' organization, or MLS; and making false statements concerning the availability of housing for inspection, rent, or sale.
- The Fair Housing Act also prohibits blockbusting (inducing homeowners to sell their property by making misrepresentations regarding the entry of minority persons in order to cause a turnover of properties in the neighborhood); steering (channeling homeseekers to or away from particular neighborhoods because they are members of a protected class); and redlining (denying loans or insurance coverage or offering loans or insurance coverage with different terms or conditions for homes in certain neighborhoods).
- The Americans with Disabilities Act (ADA) prohibits discrimination in places of public accommodation and commercial facilities such as hotels and real estate offices.
- The Interstate Land Sales Full Disclosure Act allows a purchaser who received the required property report from a development of 25 or more units before signing the contract to cancel the contract within seven days. Developers must register subdivisions of 100 or more lots with the Consumer Financial Protection Bureau.

- The Florida Residential Landlord and Tenant Act requires landlords to (1) maintain security deposits and advance rent in a separate non-interest-bearing escrow account, (2) maintain security deposits and advance rent in a separate interest bearing account and pay the tenant 5% interest or 75% of interest earned, or (3) post a surety bond for the lesser of the amount of the funds or \$50,000 and pay the tenant 5% interest. If a real estate broker holds the funds on behalf of the landlord, the broker must abide by real estate license law concerning escrow funds by placing the funds into their escrow account and keeping records for it.
- If a customer requests to know the race, color, religion, national origin, sex, familial or handicap status of a customer, it is the ethical standard for a real estate agent to express how none of the above is relevant to the sale or lease of real property, and basing any decision on said criteria is illegal, violating fair housing laws.
- Landlords have 15 days to return a tenant's deposit, or 30 days to notify a tenant of any claims the landlord intends to make on said deposits.
- There are two exemptions under the Fair Housing Act that allow religious housing and private clubs to restrict dwellings they own or operate to their own members.

UNIT 8

- Actual notice is direct knowledge acquired during a transaction; whereas, constructive notice is recording Land refers to the surface of the earth and everything attached to it by nature.
- Real estate refers to the land and improvements.
- Real property includes all real estate plus the bundle of rights.
- Physical components of land are surface rights (everything on the dirt including rocks, lakes, trees, etc.), subsurface rights (everything below the dirt including oil, limestone, minerals, etc.), and air rights (up to law established heights that are lower by airports and military facilities).
- Riparian rights are associated with land abutting a flowing waterway. Littoral rights are associated with land abutting tidal bodies of water. Accretion is the process of land buildup from water-borne rock, sand, and soil. Alluvion is the new deposits of land as a result of accretion. Erosion Gradual loss of land due to natural forces. Reliction Gradual receding of water, uncovering additional land.
- Any tangible asset that is not real property is personal property (or chattel).
- The four tests regarding fixtures are (1) intent of the parties (was the item intended to be left?), (2) relationship or agreement of the parties (landlord and tenant, or buyer and seller?), (3) method or degree of attachment (will removing the item cause damage?), and (4) adaptation of the item (was the item custom built for this property?). Once permanently attached to a dwelling, personal artifacts become part of the real property.
- The bundle of legal rights consists of the following: right of disposition, right of enjoyment, right of exclusion, right of possession, and the right of control.
- A freehold estate is an ownership interest for an indefinite period. Fee simple is the most comprehensive freehold estate, and it is inheritable. A life estate is also a freehold estate, but it is measured by an individual's natural life span.
- A leasehold estate, or nonfreehold estate, is a tenant interest in real property measured in calendar time. The three types of leasehold estates are estate for years, tenancy at will, and tenancy at sufferance.
- An estate for years is a tenancy with a specific starting and ending date.
- A tenancy at will is a lease agreement that has a beginning date but no fixed termination date. If payments are made weekly, termination notification must be made 7 days before the end date, if monthly, 15 days.

- A tenancy at sufferance occurs when a tenant retains possession of the property beyond the ending date of a legal tenancy without the consent of the landlord (tenant holds over).
- Sole ownership and concurrent ownership are ways that people hold freehold estates. An estate in severalty is created when title to property is in one person's name (sole owner). Ownership by two or more persons at the same time is concurrent ownership.
- The three types of concurrent ownership are (1) tenancy in common, (2) joint tenancy, and (3) tenancy by the entirety.
- Tenants in common have an undivided interest in the entire property and can own unequal shares. This interest can be left in a will or passed to heirs if there is no will.
- The four unities of a joint tenancy are (1) possession, (2) interest, (3) title, and (4) time. Joint tenancies are characterized by right of survivorship (when one co-owner dies, the deceased's share goes to the surviving co-owner). If a joint tenancy share owner sells their share, the new owner will not be a joint tenant, but will be considered a tenant in common.
- To create a tenancy by the entirety, the co-owners must be married to each other at the time they take title. The share of the deceased spouse automatically transfers to the surviving spouse by right of survivorship. If the deceased spouse was the only one whose name was on the title, the surviving spouse gets a life estate and the children have a remainder estate while the surviving spouse lives.
- The primary Florida residence of a homeowner once homesteaded qualifies for certain benefits and protections. These benefits include protection of the family, protection of the homestead from forced sale to satisfy judgements from credit card bills or medical expenses, and a tax exemption from the assessed value. This will not protect owners from nonpayment of certain liens including property taxes, mortgages, and construction liens.
- Purchasers of a unit in a cooperative buy shares of stock in a corporation. A proprietary lease entitles the purchaser to the right to occupy the unit.
- A condominium is real property consisting of condo units and common elements. A condominium is created by recording the declaration of condominium. The articles of incorporation create the corporate entity responsible for operating the condominium.
- Developers of more than 20 residential condo units must give purchasers a copy of the prospectus.

- There is a three-business-day cooling off period to cancel a condominium contract for sale from a property owner. There is a 15-calendar-day notice to cancel a condominium contract for sale from a developer.
- All listing agreements in connection with the resale of a time-share period must contain a disclosure stating that there are no guarantees regarding price or when the time-share unit may sell.
- The form of time-share ownership is normally divided into two types of legal formats: 1. Interval ownership is a “deeded interest” time-share format that provides for fee simple ownership. 2. Right to use means a time-share purchaser receives the right to use the unit for a specified number of years, usually 20 to 40 years.

UNIT 9

- Alienation is the act of transferring ownership, title, or an interest in real property from one person to another. Alienation may be voluntary (with the owner's control and consent) or involuntary (without control and consent).
- Voluntary alienation is accomplished using a deed or a will. When property is conveyed through a will, it is called a devise. Involuntary alienation occurs (1) when a person dies intestate (without leaving a will) and the property descends to the decedent's heirs, (2) when property transfers to the state through escheat because the owner died intestate and had no known heirs, (3) by adverse possession when the true owner fails to maintain possession and the property is seized by another, and (4) by eminent domain through a condemnation proceeding.
- the information in the public record.
- A chain of title is the complete successive record of a property's ownership. An abstract of title is a summary report of what exists in the public record.
- The two types of title insurance are (1) owner policy, which is not transferrable and protects for the purchase price of the property; and (2) lender (mortgagee) policy, which is transferable and protects for the balance of the mortgage loan.
- The two parties to a deed are the grantor (owner giving title) and the grantee (new owner receiving title). The deed must be signed by a competent grantor and witnessed by two people. The grantee does not sign the deed.
- The premises section of a deed names the parties to the deed and the date of the deed. The premises section contains the granting clause with the words used to convey the property. The habendum clause indicates the type and duration of estate being conveyed (life or fee). The seisin clause is a promise that the grantor has the legal right to convey title.
- The four types of statutory deeds are (1) quitclaim, (2) bargain and sale, (3) special warranty, and (4) general warranty. A general warranty deed provides the most comprehensive guarantee and contains three unique covenants: (1) quiet enjoyment, (2) further assurance, and (3) warranty forever. A quitclaim deed contains no covenants or warranties.
- Public (government) restrictions on ownership include police power, eminent domain, and taxation. Private restrictions include deed restrictions, easements, leases, and liens.
- The five types of leases are (1) gross lease, (2) net lease, (3) percentage lease, (4) variable lease, and (5) ground lease.

**EXAM CRAM
SUMMARY GUIDE**

- Assignment occurs when a tenant assigns to another all the leased property for the remainder of the lease. A sublease occurs when a tenant assigns only a portion of the leased property or the tenant assigns all the property for a portion of the remaining term of the lease.

- A general lien may affect all properties of a debtor. General liens include the following: judgment, income tax (IRS), and estate tax liens. A specific lien affects only a particular property. Specific liens include property tax and special assessment, mortgage, vendor, and construction liens.

- Lien priority of junior liens is the date and time a lien was recorded in the public records. However, property tax liens, special assessment liens, and federal estate tax liens are superior liens and take priority over all other liens (including IRS liens), regardless of recording date.

UNIT 10

- The following three types of legal descriptions are used today: (1) metes-and-bounds, (2) government survey system, and (3) lot and block description.
- Metes-and-bounds is the most accurate method to describe both regularly and irregularly shaped parcels. The method is based on distances (metes) and directions (bounds). Metes-and-bounds descriptions begin and end with a starting point called a point of beginning (POB).
- Corners of parcels of land are identified using markers called monuments.
- The government survey system method of legal description relies on intersecting north-south and east-west lines that form a grid system.
- In Florida, the Tallahassee principal meridian and base line intersect in Tallahassee. The principal meridian runs north-south and the base line runs east-west. A series of lines parallel to the principal meridian were established every six miles forming six-mile-wide strips that run north and south and are called ranges. Parallel lines established every six miles on either side of the base line form east-west strips of land called tiers or townships. It is important to know how to number and name the range and township tier lines for the tests.
- Township also describes a square that is six miles on each side (six miles square) and contains 36 square miles (36 sections). It is important to know how to number or name townships in reference to the meridian and base line for the tests.
- A section is a square that is one mile on each side (one mile square) and contains one square mile or 640 acres. Sections are numbered within a township in an S pattern, beginning at the top right corner and numbered right to left (sections one through six), then the next row of sections is numbered left to right (sections seven through 12), and so on. It is very important to be able to draw and number the township's sections by memory for the tests.
- To calculate the acreage in a government survey legal description, multiply the denominators of each fraction together and then divide 640 by the result. If the word and appears in the description, calculate the acreage on each side of the word and separately and then add the two acreages together.
- Lot and block descriptions are used where plat maps of single-family subdivisions have been recorded in the public records. The platted subdivision is divided into blocks, and each parcel within the block is a lot.

- To find the cost per square foot of a property you must divide the cost of an acre by the square foot in an acre. A memory tip for square feet in an acre is to think of a car full of 4 old people driving 35 mph in a 60 mph zone = 43,560 sq. ft.

UNIT 11

- Real estate licensees are allowed to assist buyers and sellers with the preparation of four types of contracts: (1) listing contracts, (2) buyer brokerage agreements, (3) option contracts, and (4) sale and purchase contracts. Real estate agents are not allowed to prepare deeds, mortgages or most other legal documents.
- The statute of frauds requires that contracts conveying an interest in real property be in writing and signed to be enforceable. The statute of frauds applies to purchase-and-sale contracts, option contracts, and lease agreements and listing agreements of more than one year.
- The statute of limitations designates that written contracts are enforceable for five years. Oral (parol) contracts are enforceable for four years.
- A valid contract is one that complies with the provisions of contract law and contains four essential elements: (1) contractual capacity of the parties, (2) offer and acceptance, (3) legality of the object, and (4) consideration.
- Real estate contracts must contain the four essential elements, be in writing, and be signed by all parties who are bound to the agreement to be enforceable in court. Real estate contracts are not required to be witnessed or notarized.
- Valuable consideration is the money or a promise of something that can be measured in terms of money. Good consideration is a promise that cannot be measured in terms of money.
- A bilateral contract obligates both parties to perform in accordance with the terms of the contract. A unilateral contract obligates only one party to an agreement.
- A contract that has been signed or is not yet finished is called an executory contract. One that has been finished is called executed.
- The offeror is the person who makes an offer. The offeree is the person who receives the offer. Once a counter offer is made, it kills the original so that it cannot be later accepted.
- A contract is terminated when any of the following occurs: performance, mutual rescission, impossibility of performance, lapse of time, bankruptcy, and breach.
- The four legal remedies for breach of a contract are (1) specific performance, (2) liquidated damages, (3) rescission, and (4) compensatory damages.
- Assignment refers to a transfer (from assignor to a new assignee) of rights and duties under a contract.

- Novation is the substitution of a new party for the original one.
- Written listing contracts must include the following information: a definite expiration date, street address and legal description of the property, price and terms, fee or commission, and signature of the owner. A copy of the contract must be given to the owner within 24 hours of execution. Listing contracts may not feature an automatic renewal clause.
- Power of attorney is a written legal document designating some other person as an attorney-in-fact. An attorney-in-fact is authorized to perform certain acts for another as authorized in the power of attorney.
- An open listing is given to one or more brokers. The seller reserves the right to sell the property and to list with other brokers. Only the broker who sells the property is entitled to commission.
- An exclusive-agency listing is given to one broker. The seller reserves the right to sell the property. The listing broker is entitled to commission unless the property is sold by the owner.
- An exclusive-right-of-sale listing is given to one broker who is assured of a commission regardless of who sells the property.
- A net listing is created when a seller agrees to sell a property for a stated acceptable minimum amount. The broker retains, as commission, all proceeds of the sale after the costs of the sale are paid and the seller receives the agreed-on net amount.
- A buyer brokerage agreement is an employment contract between a broker and a buyer.
- An option contract is a unilateral contract to keep open for a specified period of time an offer to sell or lease real property. The property owner (optionor) grants a prospective buyer (optionee) the exclusive right to buy the property within a specified period for a specified price and terms.
- The parties to a sale and purchase contract are the vendor (seller) and the vendee (buyer). Real estate sale contracts are bilateral contracts.
- Sellers must disclose material defects to a potential buyer even if selling the property "as is."
- A radon gas disclosure is required before or at the time of executing real estate sale and lease contracts. The disclosure explains what radon gas is and the possible health hazards associated with radon gas; however, it does not require a radon gas inspection.

- A lead-based paint disclosure must be given to buyers and renters of residential units built before 1978. Sellers are not required to test the home for lead based paint but must disclose the presence if known. Buyers and renters must be given an EPA pamphlet.
- The Florida Building Energy-Efficiency Ratings Act created a uniform, statewide energy-efficiency rating system. Before signing the sale contract, purchasers must receive an informational brochure about energy efficiency that informs them of the right to have an energy-efficiency rating performed on the structure. The buyer must order this, and if the home is found to be within a certain level of efficiency or higher the buyer may qualify for an energy efficient mortgage.
- Florida law requires sellers of property subject to a mandatory homeowner's association to provide buyers with a disclosure summary regarding the association, the existence of restrictive covenants, and any assessments that the association imposes.
- Purchasers must be given a property tax disclosure concerning ad valorem taxes before or at the time of executing the sale contract. The disclosure cautions buyers not to rely on the amount of the seller's property taxes as an indication of future property taxes the purchaser will pay.
- The seller must disclose to the buyer any pending building code violations.
- A community development district (CDD) is an independent special district created to service the long-term specific needs of its community.
- Misrepresentation is the misstatement of fact or the omission or concealment of a factual matter.

UNIT 12

- The two legal theories of mortgages are (1) title theory (title conveys to lender/mortgagee through a mortgage deed) and (2) lien theory (title remains with borrower/mortgagor and lender has a lien against property). Florida is a lien theory state.
- The two instruments created with a mortgage loan are (1) promissory note, the promise to repay and represents legal evidence of a debt as well as the interest rate, loans maturity, and payment schedule; and (2) mortgage, which creates the lien interest and pledges the property as security for the debt.
- The term hypothecation refers to the pledging of property as security for repayment of a loan without surrendering possession of the property. Basically, the property is collateral that you keep.
- There are two parties to a mortgage: (1) the mortgagor, or borrower (debtor), and (2) the mortgagee, or lender (creditor).
- Once the borrower has repaid the mortgage loan in full, the mortgagee executes and records in the public record a satisfaction (release) of mortgage to remove the mortgage lien. Florida statute requires that the mortgagee send the recorded satisfaction to the mortgagor within 60 days.
- The priority of mortgage liens is determined by the recording date. The oldest recorded mortgage has the higher priority and is the first mortgage. Later recorded mortgages have lower priority and are called second mortgages or junior mortgages.
- The acceleration clause authorizes the mortgagee to accelerate the due date of the entire unpaid loan balance if the mortgagor fails to fulfill any promises stated in the mortgage instrument.
- The due-on-sale clause allows the mortgagee to call due the outstanding loan balance plus accrued interest. The clause prevents another party from assuming the mortgage.
- The defeasance clause, in title theory states, requires the lender to convey legal title to the borrower once the debt is repaid. In lien theory states, this clause requires the lender to release the mortgage lien when the debt is repaid.
- The amount of cash the buyer pays is called the down payment. The loan-to-value ratio is the percentage of the purchase price or the appraised value (whichever is lower) that the buyer has borrowed. Divide the loan over value. Make sure you have the loan and value, a common trick is to be given the down payment and either the loan or value, and then you must figure out if you need to add or subtract the down payment to find the other.

- The owner's equity is determined by subtracting the mortgage balance from the current market value of the property.
- Many lenders require the borrower to pay monthly installments of $\frac{1}{12}$ of the total estimated annual property taxes and hazard insurance premium. The lender holds the installments in an escrow account and pays the property taxes and insurance premium from the impound account.
- Discount points are an up-front charge paid at closing to increase the lender's yield. One discount point is equal to 1% of the loan amount. Each discount point increases the yield by about $\frac{1}{8}$ of 1%. To find the lender's yield you place the number of points over 8, and after converting to a decimal add it to the interest rate.
- Assignment of mortgage transfers ownership of a mortgage and note from one company or individual to another.
- A contract for deed is another type of financing arrangement. The buyer agrees to make payments to the seller over time, but unlike a mortgage, the seller retains legal title until all payments have been made.
- A short sale occurs when the lienholders agree to allow the property to be sold for an amount less than what will satisfy the liens and agree to remove the liens from the property.
- A deed in lieu of foreclosure is a voluntary action when the mortgagor transfers title to the mortgagee to avoid a foreclosure proceeding.
- Equity of redemption allows the mortgagor to prevent foreclosure by paying the mortgagee the principal and interest due plus any expenses the mortgagee has incurred in attempting to collect the debt.
- A lis pendens (Latin for action pending) is a notice recorded in the public records (constructive notice) of a pending legal action that involves real estate.

UNIT 13

- Conventional loans are written by private lenders and are not guaranteed or insured by the federal government. Conventional loans typically require a larger down payment, compared with FHA and VA loans, and therefore have a lower LTV. Borrowers must pay for private mortgage insurance (PMI) for the portion of the loan above 80% LTV. Fixed-rate conventional mortgage loans have a due-on-sale clause, so they are not assumable.
- A fully amortized mortgage is one with regular payments each month of principal and interest. The monthly payment remains the same each month; however, the amount applied to principal increases each month, and the amount applied to interest decreases each month.
- A level-payment plan is a mortgage in which the monthly payments are a fixed amount, but the amount applied to principal increases each month and the amount applied to interest decreases each month.
- An adjustable-rate mortgage (ARM) is a financing technique in which the lender can raise or lower the interest rate according to a recognized and verifiable index. The margin is the percentage added to the index to cover the lender's costs plus profit (also called spread). The index plus the margin equals the calculated interest rate.
- With a partially amortized mortgage, the buyer makes regular payments smaller than what is required to completely pay off the loan by the date of termination. A single large final payment, called a balloon payment, of accrued interest and remaining unpaid principal is made at loan maturity.
- The Federal Housing Administration (FHA) is a government agency that insures mortgage loans made by approved lenders. FHA does not make loans nor does it regulate interest rates and are considered a nonconventional loan. Borrowers pay an up-front mortgage insurance premium (UFMIP) and an annual mortgage insurance premium (MIP). The annual premium is paid monthly as part of the monthly mortgage payment. Borrowers are required to make a down payment of at least 3.5%. The Section 203(b) FHA program insures fixed-rate loans on one- to four-family residences.

**EXAM CRAM
SUMMARY GUIDE**

- The Department of Veterans Affairs (VA) partially guarantees mortgage loans and like the FHA are also considered nonconventional loans. Private lenders provide VA loans to veterans, surviving spouses of veterans, and active military personnel. The VA also has the power to make direct loans to veterans. A veteran's entitlement is the maximum amount the government guarantees the lender will be paid in the event the borrower defaults. A veteran's certificate of eligibility states the amount of entitlement available to the veteran borrower. Down payments are not required on VA loans that do not exceed \$417,000. The VA charges a funding (user) fee to help the government defray the cost of foreclosures. VA loans do not have due-on-sale clauses; therefore, they are assumable (even by nonveterans).
- A primary market is the market where securities or goods are created. The primary mortgage market consists of lenders that originate new mortgage loans for borrowers.
- Mortgage loan originators (MLOs) do not make loans. They are middlemen (intermediaries) between borrowers and lenders. MLOs take loan information from a prospective borrower and "shop" for a lender offering the best rates and terms. Once a successful match is made and the loan is approved, the MLO earns a fee.
- A mortgage broker employs licensed loan originators. Mortgage brokers do not make or service loans. They work with lenders to arrange loans for prospective borrowers.
- A mortgage lender originates loans and packages them to investors. Mortgage lenders may use their own money or money borrowed from other lenders. Mortgage lenders also service loans.
- Intermediation is the process of consumers depositing funds into savings accounts at financial institutions. Lenders serve as intermediaries using borrowers' savings to provide funds to others for investment and borrowing.
- Disintermediation occurs when savers withdraw funds from intermediary financial institutions, bypassing them to invest elsewhere, thereby reducing the amount of funds available to the financial institutions.
- A secondary mortgage market is an investor market that buys and sells existing mortgages. Secondary market participants include Fannie Mae, Freddie Mac, and Ginnie Mae. Fannie Mae deals in conventional, FHA, and VA loans. Conforming loans are loans that meet Fannie Mae guidelines. Fannie Mae provides a secondary market for loans originated by commercial banks. Freddie Mac is primarily a secondary market for conventional loans. It provides a secondary market for loans originated by savings associations. Ginnie Mae is a government agency under HUD. Ginnie Mae–approved mortgage-backed securities (MBSs) are the only ones that carry the full faith and credit guarantee of the federal government. The mortgages in these MBSs are mainly FHA and VA mortgages.

- Common mortgage fraud includes using (1) straw buyers; People whose credit information is used to secure financing for another who could not qualify or had stolen the identity of another for the purpose of getting a loan. (2) No documentation loans; Loans approved without the proper income verification. (3) Red flags; Paying an appraiser under the table to inflate the value of a property for the purpose of receiving more financing.
- The Truth in Lending Act is implemented by the Federal Reserve's Regulation Z and requires lenders to disclose the annual percentage rate (APR) and all costs associated with credit. The law gives borrowers three business days to receive a copy of or cancel most consumer loan contracts, except loans to purchase or construct a new home.
- The Equal Credit Opportunity Act (ECOA) ensures that financial institutions make credit available without discrimination on the basis of race, color, religion, national origin, sex, marital status, age, or receipt of income from public assistance programs.
- The TILA-RESPA Integrated Disclosure Rule combined the TILA and RESPA disclosures into the Loan Estimate and the Closing Disclosure.
- The Federal Reserve has three economic tools to influence money supply: (1) The purchase and sale of U.S. Treasury securities called open-market operations. When the Fed sells securities the money supply decreases and interest rates increase. When the Fed buys securities, this releases money back into circulation and interest rates drop. (2) Increasing or decreasing the discount rate charged to banks that borrow money from the Fed. If the discount rate is increased, the money supply decreases, if the discount rate is decreased, the supply of money increases. (3) Increasing or decreasing the amount of funds that institutions must hold in reserve against deposit liabilities called the reserve requirement. If the reserve is increased, money instantly gets removed from circulation causing an increase in interest rates. If the reserve gets decreased, money instantly goes into circulation, causing a decrease in interest rates.

UNIT 14

- Profit is the amount you make over and above cost.
- A preclosing inspection is a final walk-through with the sales associate to verify that repairs have been completed and that the property is left in good condition.
- To prorate means to divide various debits (charges) and credits between buyer and seller. A proration is a shared expense between the buyer and the seller.
- Property taxes are paid in arrears and are prorated using a 365-day year (actual number of days in the proration period). Unpaid property taxes appear as a credit to the buyer and as a debit to the seller. Prorations have the same dollar amount in each entry. Seller days are used to prorate items paid in arrears.
- Rental income collected in advance belongs to the new owner as of the date of closing. Advance rental income appears as a credit to the buyer and a debit to the seller. Buyer days are used to prorate items paid in advance.
- Documentary stamp tax on deeds is paid on the full purchase price. The rate is \$.70 (\$.60 in Miami-Dade County) per \$100, or fraction thereof.
- Documentary stamp tax on notes is paid on the amount of debt. This tax is paid on all new and assumed mortgage notes. The rate is \$.35 per \$100, or fraction thereof.
- Intangible tax is paid on new debt. The rate is \$.002 per \$1 of new debt.
- Items that are a credit are received, much like getting the credit for something means it went to you. Items are debited when lost, like using your debit card means you lost the money in your account. A good rule is if money is being prorated between the buyer and seller for taxes or rent, use the rule DS, CB. Think DS as in the Nintendo DS. The debit and credit is only reversed for the final purchase price.

UNIT 15

- Physical characteristics of the real estate market are that (1) real estate is immobile; (2) land is indestructible (durable); and (3) real estate is unique (nonhomogeneous).
- Economic characteristics of real estate include (1) government controls influencing the market through zoning, building codes, and taxes; (2) the market's slow response to change in supply and demand; (3) area preference (situs) influencing the price buyers are willing to pay; and (4) supply and demand interacting to affect property prices.
- Supply is the amount and type of real estate available for sale or rent at differing price levels in a given real estate market. Variables that influence supply are availability of labor, availability of construction loans and financing, availability of land, and availability of materials. Think of the building aspect.
- Demand is the desire and ability to purchase or rent goods and services. Variables that influence demand are price of real estate, population numbers and household composition, income of consumers, availability of mortgage credit, and consumer taste or preferences. What people use when they are looking to buy.
- Situs refers to prospective buyers' preference for a certain area.
- A buyer's market occurs when the supply and demand equilibrium is upset by excess supply (supply exceeds demand).
- A seller's market occurs when the supply and demand equilibrium is upset with excess demand (demand exceeds supply).
- A vacancy rate is the percentage of unoccupied rental units.

UNIT 16

- Real estate licensees who conduct real estate appraisals are required to comply with USPAP. Appraisal reports involving a federally related transaction must be prepared by a state-certified or licensed appraiser.
- The six main types of value are; (1) assessed value, used for tax purposes when calculating property taxes. (2) Insurance value, used for insurance purposes for when a property gets damaged. (3) Investment value, used by investors when calculating the value of an income producing property. (4) Liquidation value, used for a business going under. (5) Going-concern value, used to derive the value of a business with a significant operating history. (6) Salvage value, used to find the value of the physical assets left after the building is no longer of value.
- Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, with the buyer and the seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.
- Value is determined by what consumers are willing to pay in the marketplace. Price refers to the amount of money actually paid. Cost is the total expenditure to create the improvement.
- An over-improvement occurs when an owner invests more money in a structure than can reasonably be expected to be recaptured.
- To have value, goods and services must possess four traits: (1) demand, (2) utility, (3) scarcity, and (4) transferability.
- Highest and best use is the most profitable use of a property. The use must be legally permissible, physically possible, and financially feasible.
- Assemblage is the combining of two or more adjoining properties into one tract. The added value. Plottage is the added value as a result of assembling (combining) two or more properties into one large parcel. For example, two adjacent lots, each valued at \$35,000, might have a combined value of \$90,000 if consolidated. The extra \$20,000 is called plottage.
- The three approaches to estimating value are (1) sales comparison approach, (2) cost-depreciation approach, and (3) income approach. The principle of substitution is the basis for all three approaches.

- The sales comparison approach compares similar properties to the subject property. The comparable properties' sale prices are adjusted upward or downward to reflect differences between each comparable and the subject property. If a comparable is superior to the subject property on a given feature, a downward adjustment is made to the comp. If a comparable is inferior to the subject property, an upward adjustment is made to the comp. The adjusted sale prices of the comparables are reconciled using a weighted average to estimate the market value of the subject property.
- The cost-depreciation approach estimates the market value of a property based on the cost to buy an equivalent site and to reproduce the structure as if new, less depreciation. Reproduction cost is the amount of money required to build an exact duplicate of the structure. Replacement cost is the amount of money required to replace a structure having the same use and functional utility as the subject property but using modern, available, or updated materials.
- Depreciation is the loss in value. Accrued depreciation is the total depreciation that has accumulated over time. Depreciation is curable when a building component has been added or repaired and the owners are able to get their money back in added value. If the owners are not able to recoup the cost of the repaired or added item, it is said to be incurable depreciation. The three major causes of depreciation are (1) physical deterioration, the breaking down of items over time. (2) functional obsolescence, items that work and function just fine but are not optimized or have poor layout. (3) external obsolescence, items that lay beyond the boundaries of a property that devalue it but cannot be fixed by the owner.
- The age-life method of estimating depreciation is based on a ratio of the property's effective age to its economic life. Effective age is the age indicated by a structure's condition and utility. Total economic life is the total estimated number of years that a structure is expected to contribute to the property's value.
- The income approach develops an estimated value based on the present worth of future income from the subject property. The approach capitalizes net operating income into value.
- Potential gross income (PGI) is the total annual income a property would produce if it were fully rented and no collection losses were incurred. Effective gross income (EGI) is calculated by subtracting vacancy and collection losses from the PGI. Net operating income (NOI) is the income remaining after subtracting operating expenses from EGI. The three categories of operating expenses are; (1) fixed, Insurance and other recurring costs. (2) variable, power and other items that vary based on usage and occupancy. (3) reserve for replacements, money set aside to fix bit ticket items such as the roof.

- Once the NOI is found, and divided by the capitalization rate, the value of an income producing property is found.
- The gross rent multiplier (GRM) is the ratio between a property's gross monthly rent and its selling price. The gross income multiplier (GIM) is the ratio between a property's gross annual income and its selling price. To perform the calculation, you divide the rent into the property value.
- Automated valuation models are not appraisals. They do not conform to USPAP standards.

UNIT 17

- Real estate investment analysis is the process of determining the extent to which real estate investments achieve an investor's objectives.
- Appreciation is the increase in property value over a period of time due to economic causes.
- Assets are the entire resources of a business. An asset is anything of value. A tangible asset can be touched and has actual substance. An intangible asset has value but does not have physical substance, such as the goodwill of a business. The difference between assets and liabilities is net worth.
- Cash flow is the total amount of spendable income generated from an investment. It is the total amount of money remaining after all expenditures have been paid. Cash flow may be positive or negative.
- Equity is the property's value minus debt. The initial equity is the down payment.
- Leverage is the use of borrowed funds to finance the purchase of an asset. Positive leverage occurs when the benefits exceed the cost of borrowing. Negative leverage occurs if the borrowed funds cost more than they are producing. Liquidity refers to the ability to sell an investment very quickly without loss of capital.
- Basis is an investor's initial cost of the property. The basis is adjusted by adding any capital improvements made to the property and deducting depreciation expenses taken on tax returns during the years of ownership.
- Capital gain (or loss) is the difference between the adjusted basis of property and its net selling price. A capital gain or capital loss has tax consequences to the owner of investment property.
- Tax shelter is the term used to describe advantages of owning real estate investments. An investment is a tax shelter when it shields income from payment of income taxes.
- Real estate investment trusts (REITs) offer investors the opportunity to invest in a pool of income-producing properties under professional management.
- Investors can choose from several types of real estate investments: residential, commercial, industrial, agricultural, and business opportunities.
- Advantages of real estate investment include the following: rate of return, tax advantages, hedge against inflation, leverage, and equity buildup.

- Disadvantages of investing in real estate include the following: illiquidity, local market, need for expert help, management requirements, and risk.
- Risk is the chance of losing all or part of an investment.
- Risk associated with general business conditions include the following: business risk, financial risk, purchasing-power risk, and interest-rate risk.
- Business brokerage and real estate brokerage similarities include (1) the sale of real property or assignment of a long-term lease may be involved; and (2) an active real estate license is required for business brokerage and real estate brokerage.
- Business brokerage differs from real estate brokerage in three ways. Business brokerage (1) may include personal property and goodwill assets; (2) the goingconcern value may differ from real estate value; and (3) business brokerage may have a wider geographic market.
- Going-concern value is the value of an established business property compared with the value of just the physical assets of a business that is not yet established.
- An income statement is a concise summary of all income and expenses of a business for a stated period of time. A balance sheet shows the company's financial position at a stated moment in time.
- Expertise required in business brokerage includes corporate finance, business accounting, and valuation of businesses.
- The methods of appraising a business are comparable sales analysis, reproduction or replacement cost, income analysis, and liquidation analysis.
- The steps in selling a business are; (1) List the business for sale. (2) Identify all assets of the business. (3) Valuation of the business. (4) Deduct liabilities. (5) Valuation of stock. (6) Legal compliance with all pertinent laws. (7) Market the business. (8) Secure a buyer. (9) Enter into a contract with both parties. (10) Due diligence period. Buyer inspects the financials of the business. (11) Closing preparation. If real estate is not sold with the business, an assignment of the lease or a new lease from the landlord is prepared; if real estate is included in the sale, title work is ordered. (12) Coordinate a date for closing the transaction.

UNIT 18

- Property taxes are payable for the current year on or after November 1. Unpaid property taxes become delinquent on April 1 of the following year.
- Assessed value is the value of a property established for property tax purposes. Property owners use a three-step procedure to protest the assigned assessed value: (1) contact the county property appraiser, (2) appeal to the Value Adjustment Board, and (3) file a suit in court (certiorari proceeding).
- The Value Adjustment Board is made up of five members: two county commissioners, one school board member, and two citizen members.
- Immune properties consist of city, county, state, and federal government properties. Immune properties are not assessed and are not subject to taxation.
- Exempt properties include property belonging to churches and nonprofit organizations. Exempt properties are subject to taxation, but the owner is released from the obligation.
- Partially exempt property is subject to taxation, but the owner is partially relieved of the burden. Taxable value is determined by beginning with assessed value and subtracting appropriate exemptions.
- Florida residents who hold title to a home in Florida and use the home as their permanent residence may homestead the property. Homeowners are entitled to a \$25,000 homestead exemption from the assessed value of the home for city, county, and school board taxes. Homesteaded properties with an assessed value of \$75,000 or more are entitled to an additional \$25,000 homestead exemption from city and county taxes (but not school board taxes).
- An additional \$500 exemption from the assessed value of homesteaded property is available to widows and widowers, legally blind persons, and nonveterans who are totally and permanently disabled. An additional \$5,000 exemption is available to veterans who are at least 10% disabled by military service-connected misfortune.
- It is important to know how to calculate the taxes, and the savings for the course and state test.
- Florida's Green Belt Law shields agricultural property from higher tax assessments.
- The Save Our Home amendment caps how much the assessed value of homesteaded property may increase each year to 3% annually or the CPI, whichever is less.

**EXAM CRAM
SUMMARY GUIDE**

- The Save Our Home (SOH) benefit is portable. Homeowners who have had the homestead exemption on their current home in either of the two preceding years can transfer their SOH benefit to a new home.
- A mill is one one-thousandth of a dollar or one-tenth of a cent. Cities, counties, and school boards are capped at a basic real property tax rate of no more than 10 mills each.
- Special assessments are one-time taxes levied on properties to help pay for a public improvement that benefits the property such as paving streets or adding utility hookups such as water or sewage lines. A special assessment becomes a lien on the property.
- Property taxes constitute a lien superior to all other liens on real property. Property taxes become a lien on January 1 of each year.
- When a property owner fails to pay property taxes, a property tax certificate is issued. Bids start at 18% and go down. The winner must pay the face amount of the certificate to the county (taxes, interest, and advertising cost). If the property owner does not pay the outstanding balance within two years from the date the tax certificate was sold, the certificate holder can apply for a tax deed.
- If the property is purchased by someone else the certificate holder will be reimbursed out of the sale proceeds. If there are no bidders, the holder of the certificate is issued a tax deed, wiping out all other liens against the property, including mortgages, except for any government liens.
- Property owners who itemize deductions may deduct interest and property taxes. Loan origination fees and points are deductible in the year paid on a loan to finance a principal residence. Points charged to finance a second home must be paid over the life of the loan.
- Deductions from taxable income on investment property include operating expenses (but not reserve for replacements), financing expense, and depreciation.
- Capital gain income is profit from the sale of a principal residence, an investment property, a property used in a trade or business, or an income-producing property. The taxable gain on real estate is determined by two factors; (1) The adjusted basis which is the original purchase price, plus expenses associated with the purchase and any capital improvements, and (2) The amount realized from the sale is the sale price less the expenses associated with the sale.
- Persons purchasing real property in the United States from foreign sellers are required to withhold up to 15% of the amount realized on the sale.

- Depreciation is a means of deducting the cost of improvements to land over a specified time. The land itself is not depreciable. Depreciation is calculated using the straight-line method; an equal amount is taken annually over the useful life of the asset. The IRS has established the useful life of 27.5 years for residential rental property and 39 years for nonresidential income-producing property.
- Under the installment sale method, the gain is received over a number of years and the seller recognizes the gain for income tax purposes over the same period. The installment sale method relieves the seller of paying income tax on gain not yet collected.
- A like-kind exchange enables a taxpayer-investor to realize the benefits of investment and property appreciation immediately while paying taxes later.

UNIT 19

- City planning commissions are delegated final authority for subdivision plat approval, site plan approval, and sign control.
- Zoning ordinances implement the comprehensive plan of how the city layout will look by dividing a community into districts or zones in keeping with the character of the land and structures and their suitability for particular uses to protect against uses that might reduce the value of neighboring properties.
- Building codes protect the public health and safety from inferior construction practices. The Florida Building Code is a statewide building code.
- Residential zoning regulates density, meaning the number of homes per acre. Commercial zoning regulates intensity of use, such as vehicular traffic generated by a commercial enterprise.
- A buffer zone is a strip of land separating one land use from another.
- The zoning board of adjustment handles appeals and requests from property owners for zoning changes.
- Variances allow property owners to vary from strict compliance with all or part of a zoning code because to comply would force an undue hardship on the property owner.
- Special exception is permission to build or to use property in apparent conflict with existing zoning ordinances.
- Nonconforming use is continuing land use that is not in compliance with a newly enacted zoning ordinance.
- A planned unit development (PUD) is a self-contained development planned under special zoning ordinances that allow maximum use of open space by reducing lot sizes and street sizes.
- Environmental impact statements summarize the effect that proposed development will have on the surroundings.
- Congress created the National Flood Insurance Program (NFIP) to help provide property owners with coverage against losses due to flooding. The NFIP offers flood insurance to homeowners, renters, and business owners if their community participates in the NFIP.
- CERCLA established a Superfund to clean up uncontrolled hazardous waste sites and to respond to spills.

- Asbestos is a mineral fiber that was used in a variety of building construction materials for insulation and as a fire retardant.
- Florida law requires radon disclosure at the time of or before entering into a contract for sale or rental. The law does not require testing to determine radon levels.
- Sellers and landlords must disclose the presence of lead-based paint in homes built before 1978.