Instructor's Notes

For

Real Estate Prelicensing

(Real Estate Principles)

NOTE: 1. **Do not study <u>only</u> this outline. You must also review all lessons.**

2. **Terms in <u>*bold*</u> <u>*print*</u> are important for the licensing examination.**

R.L. Ponthier, Ph.D., Director

Textbook Reference
Chapters 1 - 5

LECTURE OUTLINE:

I. Real Estate Specialization
   A. Brokerage—the business of bringing people together in a real estate transaction
   B. Appraisal—the process of estimating the market value of real property
   C. Property management—the business of managing real estate to protect the owner's investment and maximize the owner's return
   D. Financing—the business of arranging for or providing funds for real estate transactions
   E. Subdivision and development—the activities of splitting a large parcel of real estate into smaller ones and constructing improvements on the land
   F. Home inspection—the activities involved in conducting a visual survey of a property's site conditions, structure, and systems and preparing an analytical report useful to both buyers and homeowners
   G. Education—the provision of real estate education opportunities both to practitioners and consumers

II. Professional Organizations
   A. National Association of Real Estate Brokers (NAREB)
   B. Appraisal Institute
   C. American Society of Appraisers (ASA)
   D. National Association of Independent Fee Appraisers (NAIFA)
   E. Real Estate Educators Association (REEA)
   F. Real Estate Buyer's Agent Council (REBAC)
   G. National Association of Exclusive Buyer's Agents (NAEBA)
   H. Building Owners and Managers Association (BOMA)
   I. Institute of Real Estate Management (IREM)
   J. American Society of Home Inspectors (ASHI)
   K. National Association of REALTORS® (NAR)

III. Types of Real Estate
   A. Residential—single-family dwellings, duplexes and double houses, triplexes, fourplexes, apartments, townhouses, condominiums, mobile homes, manufactured housing, modular housing, and real estate used for specific residential purposes such as retirement homes, vacation property, and others common in different parts of the country
   B. Commercial—office buildings, retail stores and shopping centers, and other specialized facilities such marinas, air parks, and certain mixed-use properties
   C. Industrial—factories, industrial parks, warehouses, and power plants
   D. Agricultural—farms, ranches, orchards, vineyards, feedlots, hatcheries, and timberland
   E. Special purpose—churches, schools, cemeteries, government-owned property
   F. Separate markets for each type of property
      1. Sale market—where ownership is transferred from seller to buyer
      2. Rental market—where rights to occupy and enjoy a designated portion of the real estate are transferred from the landlord to the tenant for a certain period of time
      3. In Practice: Specialization within real estate firms

IV. Definitions
   A. **Land**—the earth's surface extending downward to the center of the earth and upward to infinity, including things permanently attached by nature, such as trees and water
   B. **Real estate**—the land and all things permanently attached to it by either nature or by man (improvements)
   C. **Real property**—real estate plus the interests, benefits, and rights inherent in the ownership of real estate
      In Practice: "real estate" and "realty" are casual uses of the term accurately described as "real property"
      1. Ownership of real property / bundle of legal rights; concept comes from old English law
      2. The **bundle of legal rights** includes the rights of:
         a. Possession—the right to occupy the premises
         b. Control—the right to determine certain interests for others
         c. Enjoyment—possession without harassment or interference
         d. Exclusion—legally refusing to create interests for others
         e. Disposition—determining how the property will be disposed of
         f. Encumbrance—the right to use property as security for loan
   D. **Surface rights**—may be sold or leased to others

E. **Subsurface rights**—include rights to minerals and other substances in the ground. Such rights may be sold or leased to others in the same manner as surface rights and independent of surface ownership

F. **Air rights** may also be sold or leased independent of surface ownership
Solar or sun rights have become an ownership issue in recent years primarily because of solar energy applications that require direct access to sunlight

G. **Personal property**—all property that does not fit the definition of real property
   1. Movable characteristic; also referred to as **chattels**
   2. An item of real property may be changed to personal property through severance
      a. Trees, perennial shrubbery, and grasses not requiring annual cultivation are real property (**fructus naturales**)
      b. Crops with a growing season of less than a year (annuals), known as **emblements**, are personal property (**fructus industriales**)
   3. An item of personal property may become real estate by annexation
      a. Construction materials routinely become real estate
      b. Mobile homes, manufactured housing, and modular housing laws vary depending on when and how the housing is permanently attached to the ground

H. Classification of fixtures
   1. **Fixture**—an article that was once personal property but has been so affixed to land or a building that the law now recognizes it as part of the real property
   2. Legal tests of a fixture: overall test is intention of the annexor (**MARIA**)
      a. **M**ethod of attachment
      b. **A**greement between the parties
      c. **R**elationship of the parties – lessor/lessee
      d. **I**ntention of the annexor
      e. **A**daptation of the article to real estate
   3. **Trade fixture**—an article owned by a tenant and attached to rented space or a building for use in operating a business
      a. Tenant's personal property
      b. Must remove on or before last day of lease
      c. Not removed—becomes landlord's real property
   4. Importance in a real estate transaction—to avoid confusion about which items are intended to be included in the sale, they should be clarified when a property is listed and the sales agreement is negotiated

V. Characteristics of Real Property that Affect Its Nature and Use
   A. Economic characteristics (**SIPL**)
      1. **S**carcity: Although the total supply of land is not in short supply, land of a particular quality or location may be limited
      2. **I**mprovements: Anything manmade added to land, good or bad. They can affect both the improved parcel and surrounding parcels, either favorably or unfavorably
      3. **P**ermanence of investment: Improvements are considered to create fixed investments.
      4. **L**ocation: Peoples' choices of one area or site over another (preference or **situs**) are the most important economic characteristic
   B. Physical characteristics (**IIU**)
      1. **I**mmobile: The geographic location of any given parcel of land can never be changed
      2. **I**ndestructible: Land is durable and indestructible, even though erosion, flood, volcanic action, and fire may change its topography and value
      3. **U**nique: The law holds that no two parcels of land are exactly the same; this uniqueness is also known as "nonhomogeneity" or "heterogeneity"

VI. Housing Affordability
   A. Investment considerations
      1. Tax benefits for homeowners
         a. Income tax deductions
            (1) Mortgage interest on first and second homes
            (2) Real estate taxes
            (3) Certain loan origination fees
            (4) Some loan discount points
            (5) Loan prepayment penalties

2. **Capital gain**: profit realized from sale
   a. Exclusion of $**250,000** gain **($500,000 for married couples**) from tax on sale of residence
   b. Must have lived there two of last five years
   c. Can be used repeatedly
   d. Basis and adjusted basis
3. In Practice: Real estate practitioners should tell their clients and customers to consult with experts for tax advice

VII. Introduction to Real Estate Agency - History of the nature of real estate services and common misconceptions the public has had regarding who the broker represents

VIII. Law of Agency—defines the rights and duties of the principal and agent

A. Creation of agency
   1. The principal *delegates* and the agent *consents* to act
   2. **Express agency**
      a. The parties state the terms of the agreement and express their intentions either orally or in writing
      b. In real estate, generally written agreements rather than oral; either a listing agreement or buyer-agency agreement
   3. **Implied agency**
      a. Implied by the *actions* of the parties rather than by a signed contract
      b. In real estate, the actions of the parties may create an agency relationship *unintentionally, inadvertently,* or *accidentally* where none was intended, leading to an undisclosed dual agency.
      c. Despite the disclosure of agency relationships, customers may assume that a licensee is representing them
   4. Compensation—because a person pays the compensation to the agent does not mean that person is the principal

B. Definitions in the law of agency
   1. **Agent**—the individual who is authorized to, and consents to represent the interest of another person. In real estate the broker of the firm is the agent
   2. **Subagent**—the agent of an agent
   3. **Principal**—the individual who hires and delegates to the agent the responsibility of representing his or her interests. This may be the buyer, seller, owner, or tenant
   4. **Fiduciary**—the relationship in which the agent is held in a position of special trust and confidence by the principal
   5. **Client**—the principal
   6. **Customer**—the third party for whom some level of service is provided
   7. **Non-agent**—facilitator, transaction broker, etc.

C. Fiduciary duties
   1. A fiduciary relationship is one of trust and confidence between employer (principal) and employee (agent)
   2. Differences between client and customer services
   3. Common law of agency duties includes the following as a minimum:
      a. **Care**: The agent must exercise reasonable degree of care; liability can result from negligence or carelessness
      b. **Obedience**: The agent must act in good faith and according to the principal's instructions (as long as those instructions are legal and relative to the terms of their contract)
      c. **Accounting**: The broker must account for all pertinent funds and documents placed in his or her care
      d. **Loyalty**: The principal's interests must come before the agent's; 100 percent loyalty is required; agent must inform the principal when purchasing the property for himself, or herself or when selling his or her own property to the principal; confidentiality is a key element
      e. **Disclosure**: The agent must keep the principal fully informed of all facts, including those required by the duty of discovery

D. Termination of agency—for any of the following reasons
   1. Death or incapacity of either party (notice of death is not necessary)
   2. Destruction or condemnation of the property by eminent domain
   3. Expiration of the terms of the agency
   4. Mutual agreement to terminate the agency
   5. Breach by one of the parties, such as abandonment by the agent or revocation by the principal (the breaching party might be liable for damages)
   6. By operation of law, as in a bankruptcy of the principal (since title to the property would be transferred to a court-appointed receiver)
   7. Completion or fulfillment of the purpose for which the agency was created

IX. Types of Agency Relationships
   A. Universal agent—no limits on authority
      1. Created by a "general power of attorney"
      2. Makes the agent an "attorney in fact"
   B. **General agent**—one who represents the principal in a range of matters related to a particular business or activity; receives power to enter into contracts on behalf of the principal within the agent's scope of authority
   C. **Special agent**—one who represents the principal in one specific transaction or one business activity only
      1. Such agency is created by the terms of the listing agreement or buyer-agency contract in the real estate business
      2. The agent cannot enter into contracts on behalf of the principal and cannot bind the principal to any act
   D. **Designated agent**—one who is authorized by the broker to act as the agent of a specific principal
      1. Others in office free to act for another party in a transaction
      2. Broker may be in position of dual agent, so disclosure required
      3. Varies from state to state
   E. **Single agency**: The broker represents either the seller *or* the buyer, not both in the same transaction; any third party is a customer. Precludes the sale of in-house listings to represented buyers.
   F. **Dual agency**: The broker represents two principals in the same transaction
      1. Disclosed dual agency: Both principals must be *informed* and *consent to* the dual representation. Parties must understand how the dual representation could affect their respective interests when the agent is essentially trying to serve two masters
      2. Undisclosed dual agency—The actions of the parties can create an agency relationship where none was intended

X. Customer - Level Services
   A. Duties to the third party include:
      1. Reasonable care and skill in performance
      2. Honest and fair dealing
      3. Disclosure of all facts known (or that should be known) to the licensee that materially affect the value or desirability of the property
   B. Disclosure of environmental hazards—which include lead paint, radon, asbestos, toxic waste, contaminated soil and water, or other hazards common in the area—may be required
   C. Opinion versus fact
      1. **Puffing**—exaggeration of a property's benefits; legal as long as statements are not considered fraudulent
      2. **Opinions**—must be stated as licensee's opinions with no intention to deceive
      3. **Facts**—must be accurate
         a. **Fraud**—intentional misrepresentation of material fact in a way so as to harm or take advantage of an individual
         b. **Negligent misrepresentation**—broker may be ignorant about a material fact but should have known; buyer relies on broker's statement
   D. **Latent defects**—a hidden structural defect that would not be uncovered by ordinary inspection; seller has duty to discover any latent defects that threaten structural soundness or personal safety
   E. **Stigmatized properties**—society has branded as undesirable because of events that occurred there, such as criminal events or other tragedies such as suicide

XI. Real Estate Brokerage
   A. Real estate broker—one who is licensed to buy, sell, exchange, or lease real property for others and charge a fee for services
   B. Operation
      1. Manage the business
      2. Set effective office policies
      3. Maintain space and equipment
      4. Direct staff and sales activities
      5. Master complexities of real estate transactions
   C. Legal rights and obligations
      1. Brokers should seek legal counsel to protect themselves and their salespeople
      2. Real estate licensees cannot give legal advice to any party to a transaction; they should recommend that the party consult an attorney
   D. Real estate assistants and technologies
      1. Assistant
         a. Combination office manager, marketer, organizer, facilitator
         b. May/may not be licensed; Licensed assistant more useful

2. Technologies
    a. Computers and related systems such as the Internet and e-mail
    b. Multi-listing and mortgage information "online" service
    c. Portable fax, beepers, cellular phones, computers, and printers

E. Broker-salesperson relationship
    1. The employing broker is directly responsible for supervising all salespersons' real estate activities
    2. The salesperson is responsible only to his or her employing broker. All activities must be performed in the name of the employing broker
    3. Salesperson cannot receive compensation from anyone other than own broker

F. Independent contractor versus employee status—broker *controls* employee; may specify *what* an independent contractor does but *not how* or *require* specific actions
    1. IRS has three requirements to be met for independent contractor status as a "qualified real estate agent"
        a. The individual must have a current real estate license
        b. He or she must have a written contract with the broker stating that "The salesperson will not be treated as an employee for federal tax purposes"
        c. Minimum 90 percent of the salesperson's income must be based on sales production and not on the number of hours worked
    2. In Practice: Broker should have standardized employment agreement drafted by attorney

G. Broker's compensation
    1. Must be negotiated between the principal (usually the seller) and the agent
    2. Usually a percentage of the total amount of money involved (sales price or rent); may be a fixed dollar amount
    3. The agent is entitled to a commission when he or she
        a. Was licensed when the event occurred (be sure license is renewed on time)
        b. Was employed with a (written) contract by the principal (usually a listing agreement)
        c. Was the procuring cause of the transaction—the one who started a chain of events resulting in a sale—in some cases, even if the transaction is not consummated (not required in exclusive right to sell)

H. Salesperson's compensation
    1. Must be contained in an agreement between the broker and the salesperson
    2. May be fixed salary, a share of the broker's commission, a draw on future commissions, or graduated commission splits
    3. May be incorporated into a 100 percent commission program

I. **Transactional brokerage**
    1. Also referred to as non-agent, facilitator, coordinator, or contract broker
    2. Equally responsible to both parties for the paperwork and formalities of transferring ownership of real property, but may not negotiate on behalf of either; must not disclose confidential information but must disclose known defects

J. **Antitrust laws**
    1. **Price fixing**: brokers must not conspire to "fix prices"—rates must be independently determined by broker for his or her firm based on the broker's business judgment and revenue requirements; must avoid even the *impression* that rates are standard
    2. **Group boycotting**: business must not conspire against other businesses or agree to withhold their patronage—known as group boycotting
    3. Allocation of customers or markets: brokers must not allocate customers or markets by dividing their markets and refraining from competing
    4. Tie-in agreements: may not "tie" the sale of first product to purchase of a second
    5. Penalties:
        a. A maximum $100,000 fine and three years in prison
        b. Corporations subjected to up to $1 million in penalties
        c. In a successful lawsuit, triple damages, plus attorney's fees and court costs

K. Fee-for-services: Internet has helped clients and customers to be more knowledgeable about real estate transactions. Licensees may unbundle services and the consumer only pays for specific services

Textbook Reference
Chapters 6-9

LECTURE OUTLINE:

I. Listing Agreements
   A. Definition
      1. Listings are personal service contracts between the broker and the principal
      2. Listing creates an employment contract
      3. Most states require that they must be in writing to be enforceable in court
   B. Types of listing agreements
      1. **Exclusive-right-to-sell listing**: One broker is appointed as the sole agent for the seller and is entitled to a commission regardless of who procures the buyer, including the seller
      2. **Exclusive-agency listing**: One broker is appointed as the sole agent for the seller and is entitled to a commission regardless of who procures the buyer except the seller
      3. **Open** (nonexclusive) listing: Any number of brokers, as well as the seller, can procure the buyer with only the procuring broker, if any, being entitled to a commission
   C. Special listing provisions
      1. **Multiple listing service (MLS**): An organization of brokers that pool listings and distributes them to its members, who then share commissions on cooperating sales
      2. **Net listing**: The broker may claim all proceeds above the net amount to the seller; illegal in some states, unethical in most others

II. Termination of Listings
   A. Termination for any of the following reasons
      1. Fulfillment of the purpose of the listing
      2. Expiration of the time period stated in the agreement
      3. Destruction of the property
      4. A change in property use by outside forces (such as a change in zoning or condemnation under eminent domain)
      5. Transfer of the title to the property by operation of law (such as a bankruptcy)
      6. Mutual consent
      7. Death or incapacity of either party (death of broker, not salesperson)
      8. Breach or cancellation by one of the parties (although that party may later be liable for damages)
   B. Expiration of listing period
      1. Contract must state definite termination date
      2. Automatic extension clauses are specifically prohibited by licensing authorities in some jurisdictions; the wording of some contracts also prohibits such extensions
      3. Some contracts contain a broker protection clause, which protects a broker who was procuring cause from losing commission

III. Government powers (“**PETE**”)—limitations on the ownership imposed by the government for the general welfare of community; supersede rights or interests of the individual owner
   A. **Police power**
      1. Enabling acts grant authority from the state to local governments to protect the public health and safety and general welfare
      2. Zoning ordinances, building codes, environmental protection laws, and other regulations
   B. **Eminent domain**
      1. The *right* of the government to take privately owned real estate for public use; *condemnation* is the process by which this right is exercised
      2. Legal protections for the property owner
         a. The proposed use must be declared by the courts to be a legitimate public use; used not just to create public facilities but also to protect the public from hazards
         b. Just compensation must be paid to the owner for both the property taken and the diminished value of what is left
         c. The rights of the owner must be protected under due process of law
   C. **Taxation**—a charge on real estate to raise funds to meet the costs of government operations
   D. **Escheat**—provides that the ownership of real estate will revert to the state in which it is located when its former owner dies without a will (intestate) and has no heirs capable of being discovered by the state

IV. Estates in Land—defines the owner's degree, quantity, nature, and extent of interest in real property
  A. **Leasehold estates**—estates for fixed periods of time
    1. Estate for years
    2. Estate from period to period (periodic estate)
    3. Estate at will
    4. Estate at sufferance
  B. **Freehold estates**—estates for an indeterminable period of time
    1. Fee simple estate is the highest type of interest in real estate recognized by law
      a. **Fee simple absolute**—no limitations on fee simple ownership
      b. **Fee simple defeasible**—qualified (limited); may be lost by the occurrence or nonoccurrence of a specified event
        (1) Fee simple subject to a condition subsequent—exists provided condition is not violated; former owner retains a right of reentry
        (2) Fee simple with special limitation—exists "so long as" limitation is met; former owner retains the possibility of a reverter, called fee simple determinable
    2. **Life estate**—limited to the duration of a lifetime, either that of the owner or of another designated person
      a. **Conventional life estate**—created by the owner by deed or will for a life tenant for the life of the life tenant or another person (pur autre vie)
        (1) Remainder interest—a future interest in the fee simple estate for the remainderman
        (2) Reversionary interest—returns to the grantor (or the grantor's heirs)
      b. **Legal life estates**—created by state statute rather than voluntarily by the owner
        (1) **Dower**—the life estate interest of a wife in the real property of her deceased husband
        (2) **Curtesy**—the life estate interest of a husband in the real property of his deceased wife
          (a) Community property states do not use dower or curtesy
          (b) Potential legal life estates may require both spouses to sign conveyances
        (3) Homestead rights—protect the equity in a residence from a judgment by unsecured creditors

V. Encumbrances—claim, charge, or liability that attaches to real estate
  A. Two classifications
    1. **Liens**—monetary charge
    2. **Encumbrances** - physical—restrictions, easements, encroachments
  B. **Liens**—charges against property that provide security for the debts or other obligations of the property owner
  C. **Deed restrictions**—private agreements that affect the use of land
  D. **Easements**—rights to use the land of others for particular purposes
    1. **Appurtenant easement**—annexed to the ownership of one parcel and used for its benefit on the land of another
      a. Servient tenement
      b. Dominant tenement
    2. **Easement in gross**—an individual interest in or a personal right to use the land of another (frequently for utilities)
    3. Easement by necessity—arising because owners must have ingress to and egress from their land
    4. Easement by prescription—arises when use has been continuous, exclusive, and without the owner's approval
      a. Open, notorious, visible
      b. Tacking
  E. **License**—the privilege to use another's land for a specific purpose
  F. **Encroachment**—anything extending from one property across the property line onto another parcel or beyond legal building lines

VI. **Water Rights**
  A. **Riparian rights**—generally pertain to non-navigable waters
    1. Navigable – own to edge of water
    2. Non-navigable – own to center of river
  B. **Littoral rights**—generally pertain to navigable waters; own to high water mark
  C. **Accretion, erosion, and avulsion**
    1. **Accretion**—increases in land resulting from deposit of soil
    2. **Erosion**—loss of soil by gradually wearing away
    3. **Avulsion**—sudden removal of soil due to act of nature
  D. **Doctrine of prior appropriation**—the right to use any water, except for limited domestic use, is controlled by the state

VII. Forms of Ownership
  A. Severalty
  B. Co-Ownership
  C Trust

VIII. **Ownership in severalty**—title vested in one natural or legal person

IX. **Co-ownership**—concurrent ownership; co-tenants
  A. **Tenancy in common**
    1. Two or more natural or legal owners
    2. Each owner with an undivided fractional interest
    3. Unity of *possession*
    4. Each owner may encumber or convey his or her interest
    5. Each interest is inheritable
  B. **Joint tenancy (with rights of survivorship)**
    1. Two or more natural owners only
    2. Inherent right of survivorship among the owners
    3. Creation of joint tenancy requires four unities (PITT)
      a. Possession—all joint tenants holding an undivided right to possession
      b. Interest—all joint tenants holding equal ownership interests
      c. Time—all joint tenants acquiring their interest at the same time
      d. Title—all joint tenants acquiring their interests by the same document
    4. Termination of joint tenancy occurs when any one unity is terminated
  C. **Ownership by married couples**
    1. **Tenancy by the entirety**
      a. Special form of ownership for married couples in certain states
      b. Husband and wife are considered one legal entity;
      c. Each has undivided interest with inherent right of survivorship
      d. Both husband and wife must sign any documents to encumber or convey the property
      e. Termination of tenancy by entireties:
        (1) Death of either spouse; survivor becomes owner in severalty
        (2) Agreement between both parties (new deed)
        (3) Divorce (parties become tenants in common)
    2. **Community property**
      a. Special form of ownership for married couples only
      b. Husband and wife are considered equal partners, with both signatures required for conveying or mortgaging
      c. Property acquired during the marriage is community property
      d. Property brought to the marriage or acquired during the marriage by gift or inheritance is separate property
      e. Does not have a right of survivorship as joint tenancy does. When one spouse dies, one-half of the property is inherited by the decedent's heirs (which may or may not be the other spouse)

X. **Trusts**
  A. Parties to a trust
    1. **Trustor**—the person who creates the trust
    2. **Trustee**—the party who holds legal title and must carry out the trustor's instructions regarding the purpose of the trust; has a fiduciary responsibility
    3. **Beneficiary**—the person who receives the benefits of the trust
  B. **Living trust**—created while the trustor is alive, usually by a detailed trust agreement
  C. **Testamentary trust**—created at the grantor's death through the grantor's will

XI. **Ownership of Real Estate by Business Organizations**
  A. **Partnerships**—two or more people who carry on a business for profit as co-owners
    1. General partnership: All partners are general partners who participate in the partnership; share full liability
    2. Limited partnership: The general partner provides the management for the limited (nonparticipating) partners; limited partners are only liable to the extent of their investment
  B. **Corporations**
    1. A legal entity ("artificial person"); chartered under state law
    2. Exist in perpetuity until formally dissolved

3. Managed and operated by board of directors
4. Provide its shareholders with limited liability
5. Corporate profits are usually subject to double taxation unless a Subchapter S corporation

C. **Limited liability companies (LLC)**
1. Combines features of limited partnerships and corporations
2. Members have the limited liability of a corporation plus the tax advantages of a partnership

XII. **Condominiums, Cooperatives, and Time-Shares**

A. **Condominiums**
1. Created under horizontal property laws or uniform condominium act laws—declaration of condominium
2. The purchaser is a fee simple owner who receives a deed to:
   a. Individual ownership of an individual unit
   b. Tenant-in-common interest for the common elements
3. Can be for any type of real estate, not just residential
4. There is no right to partition condominium ownership
5. Require periodic fees for common area expenses and assessments for special expenses
6. Individual ownership unit is assessed for real property tax
7. Title can be liened like any other real estate ownership
8. Administered by association of unit owners

B. **Cooperative ownership**
1. Title is held by a corporation.
2. The purchaser is a shareholder who receives:
   a. A stock certificate
   b. A proprietary lease
3. Operated and managed by board of shareholders
4. Shareholders pay fees to support the corporation’s expenses; liability for nonpayment of fees by other shareholders to support the cooperative
5. Method of transfer of ownership important issue. May require approval by board of directors and selling of stock back to corporation

C. **Timeshare ownership**
1. Can be either a *timeshare estate* (fee simple interest) or a *timeshare use*, (right to use only; developer owns the real estate)
2. The purchaser usually receives the right to occupy a certain unit for a specified time-frame each year (one week being the most common)
3. State laws that govern timeshares are extremely complex and varied, requiring specialized competent legal counsel

XIII. Describing land: The legal description of a parcel of property is the exact location of the parcel according to an established system; the description is legally sufficient if a competent surveyor can locate the parcel using that description

XIV. Methods of describing real estate

A. **Metes-and-bounds** legal descriptions
1. Must have a specific point of beginning (**POB**)
2. Must have measurements (metes = distances)
3. Must have linear boundaries (bounds = directions)
4. Must completely enclose the area (return to the POB)
5. Monuments are used to mark the ends of the measurements/corners of the survey

B. **Rectangular (government) survey system**
1. Established by Congress in 1785
2. Based on two intersecting lines
   a. **Principal meridians** that run North and South
   b. **Baselines** that run East and West
      (1) Both principal meridians and baselines are located in reference to degrees of longitude and latitude.
      (2) Each principal meridian is named and is crossed by its own base line
      (3) The rectangular survey system affects specific land areas within the boundaries.
3. **Township tiers**
   a. Township lines are six miles apart and run East and West parallel to the base line
   b. Township strips (tiers) are six-mile wide strips of townships that are numbered North and South of the base line

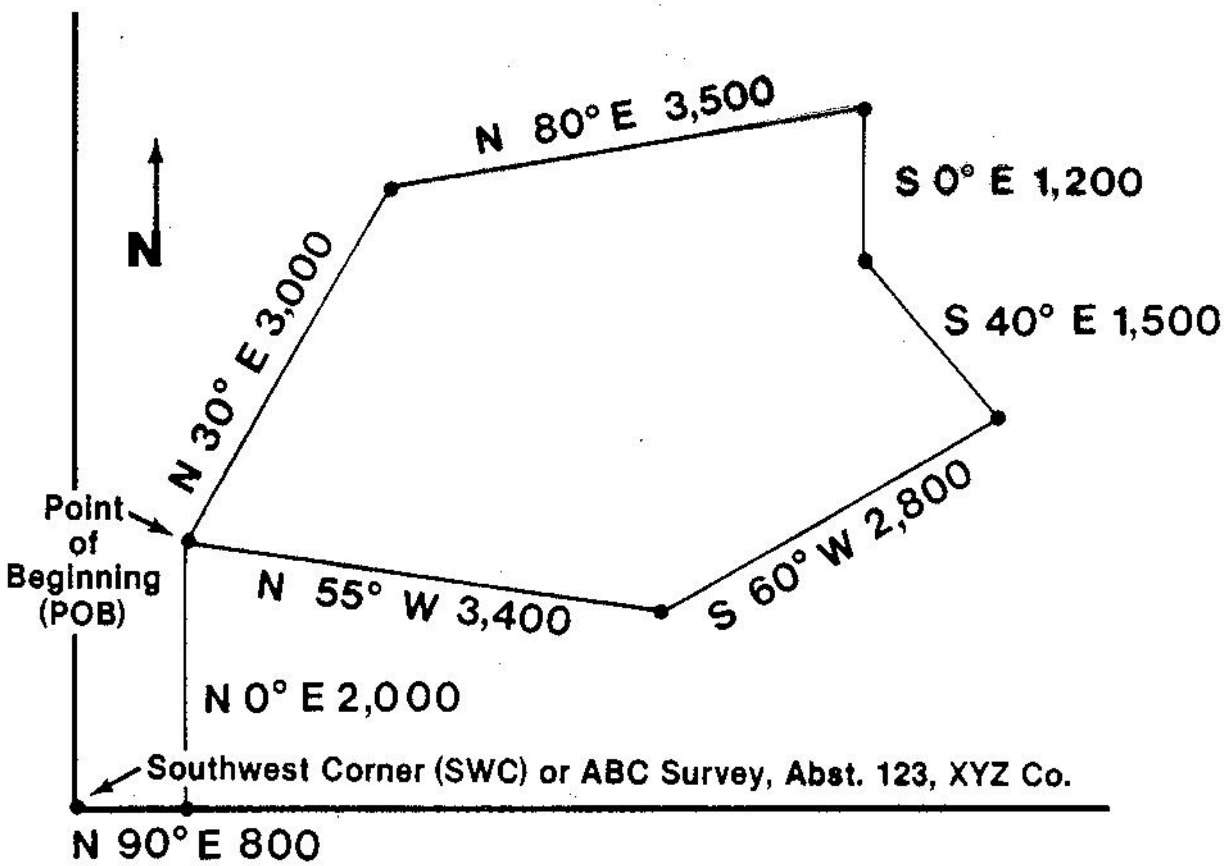
4. **Range**
    a. Range lines are six miles apart and run North and South parallel to the principal meridian
    b. Range strips (ranges) are six-mile wide strips of townships that are numbered East and West of the principal meridian
5. Township squares
    a. Townships are formed by intersecting pairs of township lines and range lines (the intersection of a township strip and a range strip)
    b. Each township is six miles square and contains 36 square miles (36 sections) or 23,040 acres
6. **Sections**
    a. There are 36 sections in a township.
    b. They are numbered 1 through 36, starting in the top right corner and moving East to West and then West to East (similar to the way a field is plowed)
    c. Each section is one mile square and contains one square mile or 640 acres
    d. Section 16 is dedicated as the school section
    e. They are divided into quarters for reference purposes
    f. Correction lines
        (1) Correction lines are required to overcome the effect of the earth's curvature on range lines
        (2) Every fourth township line is a correction line
        (3) Guide meridians run North and South at 24-mile intervals from the principal meridian
        (4) Adjustments are made on the North and West boundaries of a township (sections 1 through 7, 18, 19, 30, 31)
    g. Fractional sections and government lots
        (1) Undersized or oversized sections are classified as *fractional lots*
        (2) Areas smaller than full quarter-sections are designated as *Government lots*
        (3) They are used to correct survey errors and physical disparities (such as a partially-submerged property)
    h. Reading a government survey legal description and calculating the size of a tract of land
        (1) Start at the end of description and work backward to the beginning
        (2) Begin size calculations from right hand side with section containing 640 acres, then divide by each fraction given as you move to the left (the beginning of description.) of the principal meridian
    i. Metes-and-bounds descriptions within the rectangular survey system. Used when:
        (1) Tract is irregular or too small to be described by quarter sections
        (2) Tract does not follow the lot or block lines of recorded subdivision
        (3) Tract does not follow the section, quarter-section, or fractional section lines

C. **Lot-and-block (recorded plat) system**
1. This system uses a recorded subdivision plat map
2. It requires a survey plat by a licensed surveyor or land engineer
3. Identified properties may later be resubdivided

XV. Measuring Elevations

A. Condominium laws require a legal definition of the horizontal property rights included with each unit (air lots)
B. Subsurface rights are also defined using datum
C. **Datum**—a point of reference for measuring elevations
    1. The United States Geological Survey (USGS) uses mean (average) sea level in New York Harbor
    2. Many large cities use official local datum rather than USGS datum
    3. **Benchmarks**—permanent reference points used primarily to mark elevations; monuments are traditionally used to mark only surface measurements

Metes & Bounds Description



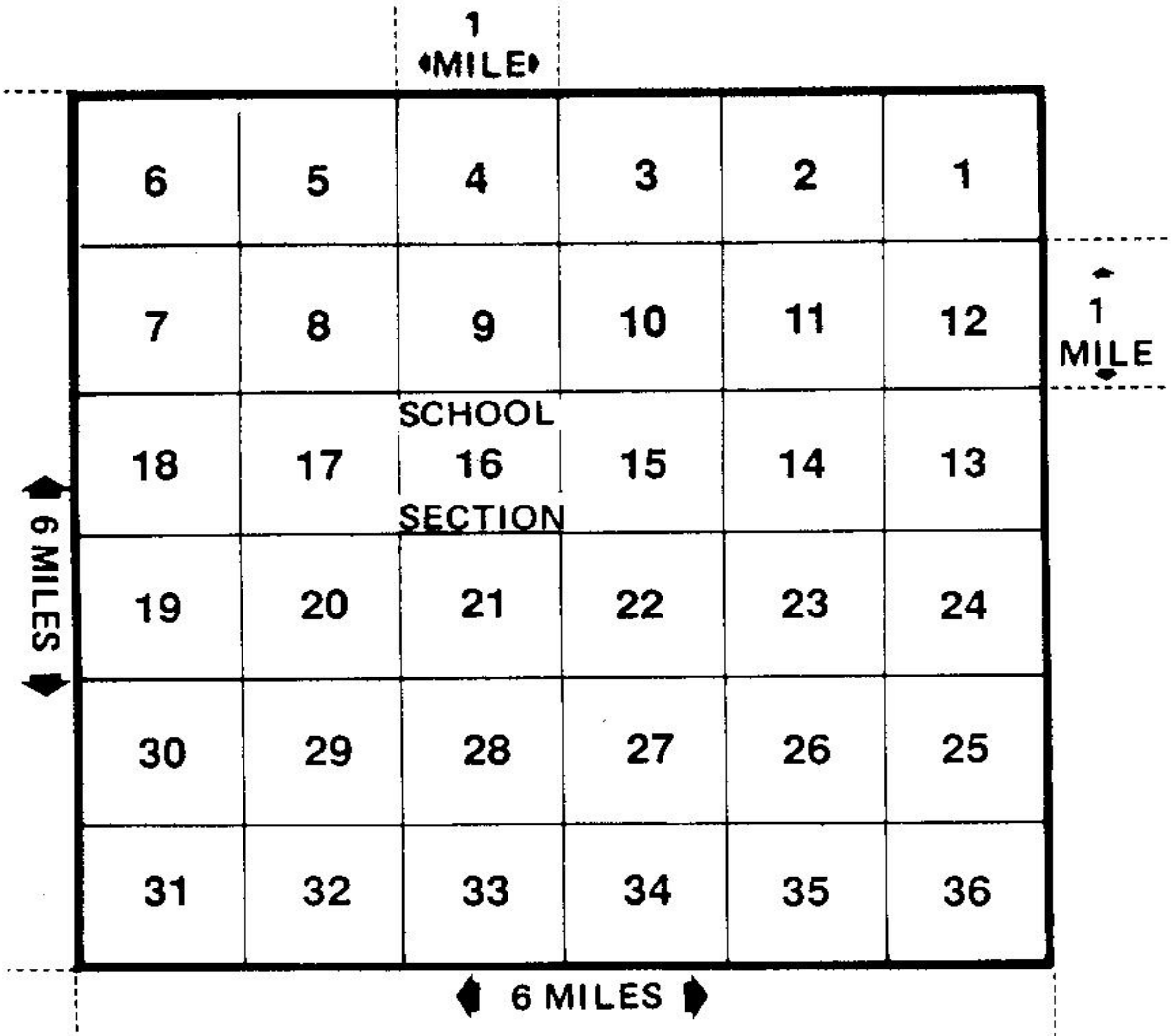
From the SWC of ABC Survey, Abstract 123, XYZ County, Texas, N 90° E 800' to an iron pipe; thence N 0° E 2,000' to an iron pipe for the POB; thence N 30° E 3,000' to an iron pipe; thence N 80° E 3,500' to an iron pipe; thence S 0° E 1,200' to an iron pipe; thence S 40° E 1,500' to an iron pipe; thence S 60° W 2,800' to an iron pipe; thence N 55° W 3,400' to the POB and containing XX acres of land.

MERIDIAN

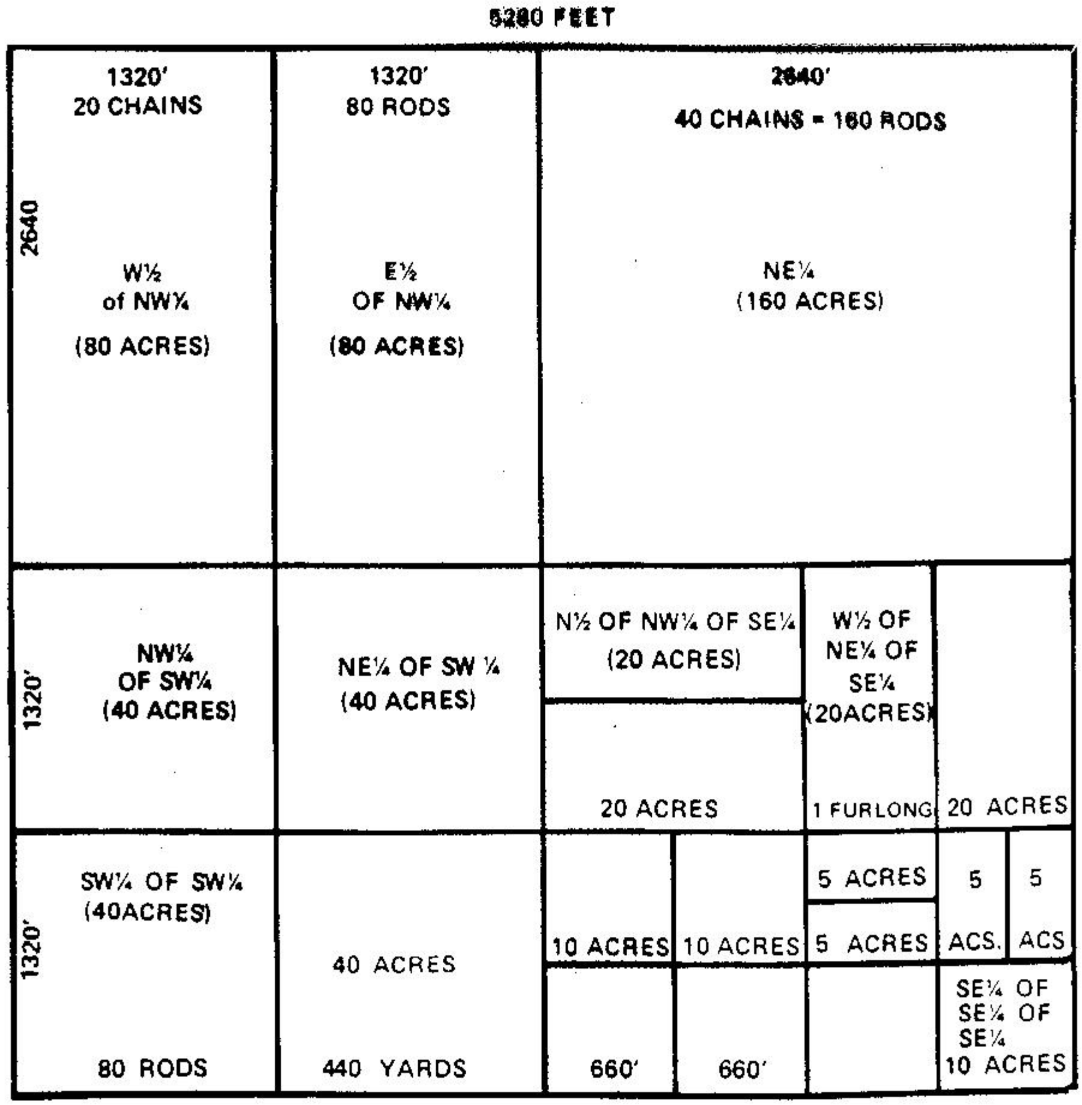
	R4W	R3W	R2W	R1W	R1E	R2E	R3E	R4E
T4N						T4N R2E		
T3N								
T2N								
T1N								
T1S			T1S R2W					
T2S								
T3S								
T4S								

BASELINE

SECTIONS IN A TOWNSHIP



A SECTION



5280 FEET
1320'
20 CHAINS
1320'
80 RODS
2640'
40 CHAINS = 160 RODS
2640
W½ of NW¼ (80 ACRES)
E½ OF NW¼ (80 ACRES)
NE¼ (160 ACRES)
1320'
NW¼ OF SW¼ (40 ACRES)
NE¼ OF SW ¼ (40 ACRES)
N½ OF NW¼ OF SE¼ (20 ACRES)
W½ OF NE¼ OF SE¼ (20ACRES)
20 ACRES
1 FURLONG
20 ACRES
1320'
SW¼ OF SW¼ (40ACRES)
40 ACRES
10 ACRES
10 ACRES
5 ACRES
5 ACRES
5 ACS.
5 ACS
SE¼ OF SE¼ OF SE¼ 10 ACRES
80 RODS
440 YARDS
660'
660'

Textbook Reference
Chapters 10 and 11

LECTURE OUTLINE:

I. **Lien**—a charge against property that provides security for a debt of the property owner
   A. Encumbrance—any charge or claim that burdens the title to real property, including liens and nonmonetary claims
   B. Liens may be **voluntary** or **involuntary**, **statutory** or **equitable**, and **general** or **specific**
   C. **General liens**—affect all property owned by a debtor, both real and personal
      1. Judgment liens
      2. Estate and inheritance tax liens
      3. Debts of a deceased person (decedent)
      4. Corporation franchise tax liens
      5. Internal Revenue Service (income) tax liens
      6. A lien attaches to real property the moment it is filed
      7. A lien does not attach to personal property until that property is seized
   D. **Specific liens**—affect only one identified parcel of real property
      1. Real estate tax (ad valorem tax) liens
      2. Special assessment liens
      3. Mortgage liens
      4. Trust deed liens
      5. Mechanic's liens
      6. Utility liens
      7. Bail bond liens
   E. The effect of liens on title
      1. Liens run with the land
      2. Liens attach to the property, not the property owner
   F. Priority of liens
      1. The order in which claims against the property will be satisfied
      2. Generally, real estate taxes and special assessments take priority over all other liens
      3. Other liens follow in the order that they were recorded
      4. Subordination agreements between lien holders can change priority

II. Real Estate Tax Liens
   A. General ad valorem tax
      1. They are levied by taxing bodies as a government power
      2. They are levied according to the value of the property being taxed (**ad valorem** = according to value)
      3. Ad valorem are *specific, involuntary, statutory* liens
      4. Exemptions: properties used for tax-exempt purposes:
         a. Cities
         b. Various municipal organizations
         c. State and local governments
         d. Hospitals
         e. Educational institutions
      5. The method of assessment varies among jurisdiction (for example, a property's market value, a percentage of market value or replacement cost)
      6. **Equalization** process used to achieve uniformity
      7. Arriving at the tax rates
         a. A budget must be adopted by the taxing body
         b. The amount of tax money needed specifically from real estate is derived from the budget figures
         c. The tax levy is imposed on each parcel of real property
         d. The tax bill is sent to each property owner
      8. Tax bills
         a. Usually one tax bill incorporates all taxes levied by various taxing bodies
         b. Due date, called penalty date, is set by statute

9. Enforcement of tax liens
   a. The taxes must be valid to be enforceable
   b. The provisions for delinquent taxes include:
      (1) Published notice after a court has rendered a judgment
      (2) Tax sale
      (3) Penalties imposed when the delinquent taxes are paid
      (4) The rights of redemption
         (a) **Equitable right of redemption**
         (b) **Statutory right of redemption**

B. Special assessments (improvement taxes)

III. Other Liens on Real Property
   A. **Mortgage liens** and deed of trust liens—*voluntary, specific* liens used in real estate financing
   B. **Mechanic's liens**—*involuntary, statutory, specific* liens
      1. Mechanic's liens give security to those who perform labor or furnish material in the improvement of real property
      2. There must be a contract (expressed or implied, but usually written) between the owner and the contractor.
   C. **Judgment liens**—*involuntary, equitable, general* liens
      1. A judgment is a decree issued by a court at the end of a lawsuit
      2. A judgment lien takes its lien priority according to the laws of the state in which the property (real or personal) is located
      3. It is enforced through the issuance of a writ of execution and the ultimate sale of the property
      4. When property is sold, a satisfaction of judgment should be filed
      5. **Lis pendens (litigation pending**) is an encumbrance that is a notice of a possible future lien on real estate
      6. Attachments—the court retains custody of property until a lawsuit is concluded
   D. **Estate and inheritance tax liens**—*involuntary, statutory, general* liens; they are usually paid during the probate court proceedings
   E. Internal Revenue Service (income) tax liens—*involuntary, statutory, general* liens that result from a person's failure to pay any portion of his or her federal tax liability, such as income and withholding taxes

IV. Contract Law
   A. **Contract**: a voluntary agreement or promise between legally competent parties, supported by legal consideration, to perform (or refrain from performing) some legal act
      1. Contracts may be **express**(ed) in writing or orally
      2. Contracts may be **implied** by action or conduct
      3. In **bilateral** contracts, all parties promise to do something for one another; they bind all parties and are enforceable against all parties
      4. In **unilateral** contracts, one party promises to do something to induce the second party to do something; they are binding on and enforceable against only one party
      5. **Executed** contracts are those that have been fully performed
      6. **Executory** contracts require some performance by one or more parties before they are completed
   B. Essential elements of a valid contract
      1. Offer and acceptance—mutual assent or meeting of the minds
         a. **Offer**—promise made by one party (offeror) with the request for something in exchange for that promise—may be terminated by
            (1) Rejection, including a counteroffer
            (2) Failure to accept within prescribed time period
            (3) Revocation by the offeror before acceptance
         b. **Acceptance**—promise by the offeree to be bound by the exact terms proposed by the offeror
         c. **Counteroffer**—a new offer which rejects the original offer
      2. **Consideration**—something of legal value; that which is "good or valuable" between the parties. Courts do not inquire into the adequacy of consideration
      3. **Legal object**
      4. Written and signed agreement (unless allowed by the **statute of frauds**)
      5. **Accurate description of the real estate**
      6. **Legally competent parties**
         a. Of legal age
         b. Sufficient mental capacity to understand the actions or consequences

C. Validity of Contracts. Contracts can be:
   1. **Valid**—complies with the essentials of a valid contract
   2. **Void**—has no legal effect (in theory, never was a contract); lacks essential elements of a valid contract
   3. **Voidable**—may be disaffirmed or voided by one party based on some legal principle
   4. **Unenforceable**—no party may sue for performance; type of contract being used

D. **Reality of consent**—parties must be able to make a prudent and knowledgeable decision without undue influence. May be deprived by:
   1. Mistake
   2. Misrepresentation
   3. Fraud
   4. Undue influence, including chemical substances
   5. Duress

E. Discharge of contracts; discharged when terminated, completely performed, a party's breach or default
   1. Performance of contract
      a. "**Time is of the essence**" means the contract must be performed within the stipulated time
      b. If no time is stipulated, it should be performed within a reasonable time
   2. **Assignment**—the transfer of rights and obligations under a contract to a third party (assignee)
   3. **Novation**—the substitution of a new contract for an existing contract
   4. Breach of contract
      a. If the seller defaults, the buyer may
         (1) Rescind the contract and recover the earnest money
         (2) Sue the seller for specific performance
         (3) Sue the seller for compensatory damages
      b. If the buyer defaults, the seller may
         (1) Declare the contract forfeited and retain the earnest money
         (2) Rescind the contract but return the earnest money
         (3) Sue the buyer for the purchase price
         (4) Sue the buyer for compensatory damages
   5. **Statute of limitations**—the time limit in which to enforce rights; time varies for different legal actions, rights not enforced within time period are lost
   6. Contracts may be discharged or terminated when any of the following occur:
      a. Partial performance—with written acceptance
      b. Substantial performance —may be sufficient to force payment with certain adjustments
      c. Impossibility of performance—legally impossible to perform the required act
      d. Mutual agreement—by the parties to cancel the contract
      e. Operation of law—as in the voiding of a contract by a minor, result of fraud, improper alteration of the contract, or expiration of statute of limitations
      f. Rescission—one party may rescind the contract and return the parties to their original positions; monies that have been exchanged must be returned

V. Contracts Used in the Real Estate Business

A. Contract forms
   1. A real estate licensee who is not a licensed attorney may not practice law, i.e., draw up a contract
   2. Preprinted forms are commonly used

B. Sales contracts (Agreement of Sale, Offer to Purchase, Contract of Purchase and Sale, Purchase Agreement, Earnest Money Agreement)
   1. The sales contract is the most important document in a transaction because it establishes the legal rights and obligations of the buyer and seller; it dictates the contents of a deed
   2. **Deposits**—evidence of the buyer's intention to carry out the terms of the contract
      a. Should be held by the broker, escrow agent or attorney in a trust or escrow account
      b. Amount to be agreed upon by buyer and seller
      c. Should show how interest earned will be distributed
      d. Should be of a sufficient amount to discourage the buyer from defaulting and compensate the seller for taking the property off the market
   3. Equitable title: After the contract is created but before the deed is delivered
   4. Liquidated damages: Commonly, the contract specifies that earnest money will be used as liquidated damages, which is an amount agreed to by the parties to compensate one if the other breaches the contract

C. Amendments and addenda
   1. Amendment is a change to existing content of a contract
   2. Addendum is an additional, new provision to a contract

D. Option agreements
   1. Grant the right to buy or lease property at a fixed price within a stated period of time
   2. The optionee gives valuable consideration and has the right to
      a. Buy or lease the property
      b. Let the option expire
   3. The optionor must
      a. Reserve the property for only the optionee
      b. Sell or lease the property if the optionee exercises the option
E. **Land contracts** (Contract for Deed, Bond for Title, Installment Contract, Bond for Deed)
   1. The seller/vendor retains fee simple ownership of the property
   2. The buyer/vendee receives possession and equitable title; becomes responsible for paying principal, interest, real estate taxes, hazard insurance premiums, and maintenance and repairs on the property depending on terms of the contract
   3. The seller delivers the deed when the terms of the contract have been met, usually full payment of the contract amount

Textbook Reference
Chapters 12 and 13

LECTURE OUTLINE:

I. Title—the right to and evidence of the ownership

II. Voluntary Alienation—the owner intentionally conveys the ownership during his or her lifetime using some form of deed; may be a gift or a sale
   A. Requirements for a valid deed
      1. A **grantor** who has legal capacity to sign the deed; a deed signed by minors or individuals declared legally incompetent could be either void or voidable
      2. A **grantee** named so that he or she can be readily identified; stage names and fictitious names are permitted, but no conveyances are allowed using "or"
      3. A recital of **consideration**
      4. A **granting clause**—the words of conveyance
      5. A **habendum clause**—the "to have and to hold" clause that defines the ownership taken by the grantee
      6. An accurate legal description of the property being conveyed
      7. Any exceptions or reservations to the title (for example, easements, deed restrictions or restrictive covenants)
      8. The signature of the grantor, sometimes with a seal or before a notary public or other officer of the court
      9. **Acknowledgment**—that the signature is genuine and a free and voluntary act; usually required for recordation
      10. The delivery of the deed to and its acceptance by the grantee
   B. Execution of corporate deeds; varies from sate to state
      1. The conveyance of corporate-owned real estate requires a proper **resolution** by its board of directors or some other authority from its bylaws
      2. The deed must be signed by an authorized corporate officer
   C. Types of deeds
      1. **General warranty deed**
         a. May contain express written warranties; may state "convey and warrant" or "warrant generally" depending on state law
         b. May contain implied warranties according to state statutes
         c. The basic warranties are
            (1) **The covenant of seisin**: The owner has full ownership and the legal right to convey the title
            (2) **The covenant against encumbrances**: The title is free from all liens and encumbrances except those specifically stated
            (3) **The covenant of quiet enjoyment**: The grantor assumes responsibility for protecting the title against the claims of third parties
            (4) **The covenant of further assurance**: The grantor will furnish whatever is needed to make the title good
            (5) **The covenant of warranty forever**: The grantor is liable for reimbursing the grantee for any title interest lost in the future
         d. Grantor defends title against both himself and against all those who previously held title
      2. **Special warranty deed**
         a. Contains clause "remise, release, alienate, and convey"
         b. Warrants only that the title was not encumbered while the grantor held it except as noted in the deed
         c. Any additional warranties must be specifically stated in the deed
         d. May be used by a fiduciary
      3. **Bargain and sale deed**
         a. May state "grant and release" or "grant, bargain, and sell" in the document, depending on state law
         b. Contains no warranties against encumbrances unless stated
         c. Only implies that the grantor holds title and possession
      4. **Quitclaim deed**
         a. Provides the least protection to the grantee
         b. Carries no covenants or warranties whatsoever
         c. Transfers only what interest the grantor may have, if any
         d. May state "remises, releases, and quitclaims"
         e. May be used to transfer a right or interest in real estate, such as an easement
         f. Often used to cure a defect in title

5. **Deed in trust**
   a. Used by a trustor to convey property to a trustee for the benefit of a beneficiary
   b. Usually accompanied by a trust agreement regulating the trustee's actions
6. **Trustee's deed**
   a. Used to convey property out of a trust to anyone other than the trustor
   b. Executed by the authority granted to the trustee
7. **Reconveyance deed**—executed by the trustee to return (reconvey) title property held in trust to the trustor
8. A deed executed pursuant to a court order
   a. Usually a statutory deed form used to convey title
   b. Includes executor's deeds, administrator's deeds, sheriff's deeds, and others
   c. Used to convey title to property transferred by court order or by will
   d. The full consideration paid is usually stated on the deed

D. Transfer tax stamps
   1. Usually payable when the deed is recorded; also called "documentary stamps"
   2. Paid by the seller, buyer, or split, depending on local custom or law

III. Involuntary Alienation—transfers without the owner's consent

A. Transfer by operation of law
   1. **Eminent domain** (through **condemnation**)
   2. **Escheat**
   3. Any type of foreclosure; for example delinquent real estate taxes or special assessments, mortgage or deed of trust laws, mechanic's liens, judgment liens

B. Transfer by natural forces
   1. **Accretion**—the slow accumulation of soil, rock, or other matter deposited on one's property by the movement of water
   2. **Erosion**—the gradual wearing away of the land
   3. **Avulsion**—the sudden and violent tearing away of the land
   4. **Alluvion**— the deposit of soil, rock, or other matter on one's property
   5. **Accession**

C. Transfer by **adverse possession**
   1. Possession by the trespasser must be open, notorious, continuous for a statutory number of years, hostile, and adverse to the true owner
   2. **Tacking** permits combining successive periods of adverse possession by different persons
   3. Each jurisdiction has its own minimum requirements before an adverse possession claim can be filed

IV. Transfer of a Deceased Person's Property

A. Transfer of title by will—a ***devise***; the person dies ***testate***
   1. A will is a testamentary instrument that becomes effective only after the death of its maker
   2. It must strictly adhere to the laws of the state
   3. It cannot supersede dower and curtesy laws (where they apply)
   4. The requirements for a valid will are
      a. The maker (the *testator*) must be of legal age
      b. The testator must be of sound mind
      c. The will must contain proper wording according to state law
      d. It must be a free and voluntary act; the maker must be under no undue influence
   5. A **codicil** is a modification of or an amendment to a will
   6. A **holographic will** is in its maker's own handwriting
   7. A **nuncupative will** is given verbally by its maker

B. Transfer of title by descent—the laws of the state determine to whom ownership passes; the person dies ***intestate***
   1. The laws of intestate succession vary from state to state
   2. Generally, there are primary heirs (spouse, children)
   3. The closeness of one's relationship to the deceased determines the amount of the estate that will be received

C. **Probate** proceedings—the purpose is to see that assets are distributed properly; affects only those assets that do not otherwise distribute themselves by their title
   1. It is a legal process that
      a. Proves or confirms the validity of the will
      b. Determines the precise assets of the deceased person
      c. Identifies the persons to whom the assets are to pass
      d. Takes place in the county where the decedent resided

2. An **administrator/administratrix** is appointed if there is no will designating an **executor/executrix**. ix = female
3. The decedent's debts must be satisfied before any property can be disbursed to the devisees or heirs

V. Public records—give the public legal and constructive notice of written documents that affect the real estate
   A. Records maintained by:
      1. Recorder of deeds
      2. County clerks
      3. County treasurers
      4. City clerks
      5. Collectors
      6. Clerks of courts
   B. Recording
      1. Placing documents in public record
      2. Recording acts
         a. Documents must be recorded in the county where the real estate is located
         b. Documents must be drawn and recorded according to the provisions of the recording statutes of that jurisdiction
   C. Notice
      1. **Constructive notice**
         a. The legal presumption that information is available and by diligent inquiry an individual can obtain it
         b. Includes properly recording documents and the physical possession of the property
      2. **Actual notice**
         a. Direct or actual knowledge
         b. Includes knowing what has been recorded and personal inspection of the property
   D. Priority
      1. Generally established by the date and time of recording
      2. Can be very complex and require legal advice
   E. Chain of title
      1. Recorded history of all of the matters that affect the title
      2. Include ownership, encumbrances, and liens
      3. Beginning with the original source of ownership and linking the passage of ownership to subsequent owners to form a chain
      4. A gap in the chain requires a **suit to quiet title** or **quitclaim deeds** to establish ownership
   F. **Title search** and **abstract of title**
      1. An examination of public records to determine what defects, if any, exist in the chain of title
      2. Search begins with present owner and traces back to the origin of title
      3. Length of search depends on local custom or laws (40-60 years)
      4. Abstract of title
         a. Summary report of the items about a property that can be found in public record
         b. Prepared by an abstractor
         c. Does not reveal items that cannot be found in the public records
   G. **Marketable title**
      1. Discloses no serious defects and does not depend on doubtful questions of law or fact to prove its validity
      2. Does not expose a purchaser to the hazard of litigation or threaten the quiet enjoyment of the property
      3. Convinces a reasonably well-informed and prudent person that he or she could, in turn, sell or mortgage the property
      4. Unmarketable title can still be transferred but its defects may limit or restrict its ownership
      5. Typical sales contract requires the seller to deliver marketable title to the buyer
      6. Customary for a preliminary title search to be conducted after sales contract is signed to give the buyer opportunity to review and seller time to cure defects before settlement

VI. Proof of Ownership—evidence of title; deed by itself not sufficient
   A. Certificate of title
      1. Statement of opinion of the title's status as of the date of the certificate
      2. Based on the title search
      3. Prepared by a title company, licensed abstracter, or an attorney
      4. Imperfect because unrecorded liens, rights of parties in possession, and hidden defects such as forged deeds, marital interests, or fraud cannot be detected

B. Abstract and attorney's opinion
    1. May be used in some areas as sufficient evidence
    2. Attorney's opinion issued on basis of abstract
    3. Imperfect because of the same conditions that affect a certificate of title
C. Title insurance
    1. Insures the policyholder against loss due to defects in the title other than those exceptions identified in the policy
    2. Based on the title search
    3. Premium paid once, at closing
    4. The maximum loss a company liable for cannot exceed face amount of policy
    5. When title company makes payment to settle a claim, it acquires rights to any remedy or damages available to insured (called **subrogation**)
    6. Different types of policies depending on who is insured
        a. Owner's policy—issued for the benefit of the owner
        b. Lender's policy—issued for the benefit of the mortgagee; coverage commensurate with amount of loan; does not protect owner's interest
D. **The Torrens System**
    1. Written application to register the title is made with the clerk of the county court where the property is located
    2. A court hearing is held, and the court enters an order to register the real estate with the registrar of titles

Textbook Reference
Chapters 18 and 19

LECTURE OUTLINE:

I. Appraising
   A. Appraisal—estimate or opinion of value based on supportable evidence and approved methods
   B. Regulation of appraisal activities. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires appraisals performed as part of a federally related transaction must be performed by a state-licensed or state-certified appraiser
   C. **Competitive market analysis** (CMA)
      1. Real estate licensees must be familiar with appraisal techniques to perform a competitive market analysis (CMA) when assisting a seller to set the listing price for a property
      2. CMA is not an appraisal

II. Value—monetary worth based on desirability
   A. Characteristics of value ("DUST")
      1. **D**emand—the need or desire for possession or ownership backed by the financial means to satisfy that need
      2. **U**tility—usefulness for its intended purpose
      3. **S**carcity—a finite or limited supply
      4. **T**ransferability—the relative ease with which ownership rights can be transferred
   B. **Market value**
      1. The *most probable* price a property will bring in a fair sale
         a. In a competitive and open market
         b. Buyer and seller each acting prudently, knowledgeably and without undue influence
         c. Price not affected by unusual circumstances
      2. Essential to determine market value
         a. The most probable price is not the average or highest price
         b. The buyer and seller must be unrelated and acting without undue pressure
         c. Both the buyer and the seller must be well informed of the property's use and potential, including its assets and defects
         d. A reasonable length of time must be allowed for the property to be exposed in the open market
         e. Consideration is paid in cash or its equivalent
         f. Price must represent a normal consideration, unaffected by special financing
   C. **Market value versus market price**
      1. Market value—an estimate based on the analysis of comparable sales and other pertinent market data
      2. Market price—what the property actually sold for; sales price
   D. **Market value versus cost**
      1. Common misconceptions that cost represents market value
      2. Cost and market value *may* be the same if improvements are new

III. The Three Approaches to Value
   A. **The sales comparison approach**
      1. An estimate of value is obtained by comparing the subject property (the property under appraisal) with recently sold comparable properties (properties similar to the subject)
      2. The factors for which adjustments to the comparable properties are made
         a. Property rights—in cases where less than the full bundle of rights is involved
         b. Financing concessions—events such as differences in mortgage loan terms or owner financing
         c. Conditions of sale—motivational factors such as foreclosure or a sale between family members
         d. Date of sale—changes in economic conditions between the date of the sale of the comparable property and the date of the appraisal
         e. Location—compensate for locational or neighborhood differences
         f. Physical features and amenities—physical differences between the comparable properties and the subject
      3. A dollar value or percentage adjustment is assigned to each difference between the subject property and the comparable properties

4. Adjustments are made as follows:
    a. If the comparable property is better than the subject property or has a feature that the subject property lacks, the value of the comparable is decreased accordingly
    b. If the comparable property is not as good as the subject property or lacks a feature that the subject property has, the value of the comparable is increased accordingly

B. **The cost approach**
1. Steps in the cost approach to value
    a. Estimate the value of the land as if it were vacant and available to be put to its highest and best use
    b. Estimate the current cost of constructing the building(s)
    c. Estimate the amount of accrued depreciation resulting from physical deterioration, functional obsolescence, and external obsolescence
    d. Deduct the accrued depreciation from the estimated construction cost of new building(s)
    e. Add the estimated land value to the depreciated cost of the building(s) and site improvements to arrive at the total property value
2. **Reproduction cost versus replacement cost**
    a. Reproduction cost—the current cost of a duplicate of the subject property, including both the benefits and the negative features of the property
    b. Replacement cost—the current cost of improvements with utility or function similar to the subject property
3. Depreciation—loss in value of an improvement due to any cause
    a. Physical deterioration—normal wear and tear
        (1) Curable—repairs that are economically feasible
        (2) Incurable—repairs that are not economically feasible
    b. Functional obsolescence—outmoded items and poor design
        (1) Curable—outdated physical or design features that could be replaced or redesigned economically
        (2) Incurable—outdated physical or design features that could not be replaced or redesigned economically or physically
    c. External obsolescence—incurable, because it is caused by a problem external to the property and, therefore, beyond the property owner's control
4. Depreciation is usually calculated on a straight-line basis (economic age-life method), the assumption being that depreciation occurs at an even rate over the structure's economic life
5. Cost approach used for appraising newer or special-use buildings, such as schools, churches, and public buildings

C. **The income approach**—based on the present value of the rights to future income
1. Income divided by rate equals value
2. Steps in the income approach to value
    a. Estimate the annual potential gross income—income from all sources, including rent, concessions, and vending
    b. Deduct for vacancies and collection losses ("bad debt") to obtain the effective gross income
    c. Deduct the annual operating expenses to obtain the net operating income; *does not* include
        (1) Debt service (principal and interest payments)
        (2) Depreciation (a noncash expense)
        (3) Capital expenditures/capital improvements
        (4) The owner's personal income tax liability
    d. Estimate the price an investor would pay for the income produced by this particular type and class of property
        (1) Compare the annual net operating incomes of recently sold similar properties to the sales price of those properties
        (2) The annual net operating income divided by the sales price results in the capitalization ("cap") rate
    e. Apply the capitalization rate to the subject property's annual net operating income to obtain an estimated value
3. **Gross rent multipliers and gross income multipliers**—informal substitutes for income capitalization
    a. Gross rent multiplier (GRM)
        (1) Used for one to four residential units
        (2) Based on the gross monthly rent of recently sold similar properties
        (3) The sales price divided by the gross monthly rent results in the gross rent multiplier
    b. Gross income multiplier (GIM)
        (1) Used for five or more residential unit properties and nonresidential income properties
        (2) Based on the gross annual income (from all sources) of recently sold similar properties
        (3) The sales price divided by the gross annual income results in the gross income multiplier

D. **Reconciliation**—obtaining the final value estimate by analyzing and weighing the findings from the three approaches
   1. The three approaches to value usually produce three different indications of value
   2. All three should be used in estimating the final value
   3. The three indications of value should not be averaged
   4. Depending on type of property, one approach would be given more weight than others

IV. Land Use Controls
   A. Land use controlled by public and private restrictions and public ownership of land
   B. The police power of the states is the inherent authority to create the regulations necessary to protect the public health, safety and welfare
   C. The states, in turn, allow local municipalities to make regulations that are consistent with the general laws

V. The Comprehensive Plan—also called a master plan
   A. Developed to ensure that social and economic needs are balanced against environmental and aesthetic concerns
   B. Provides the municipality with the goals and objectives for its future development

VI. Zoning
   A. Zoning ordinances
      1. Local laws that regulate the use of land and structures within designated zones, affecting items such as:
         a. Permitted uses of each parcel of land
         b. Lot sizes
         c. Types of structures
         d. Building height
         e. Setbacks
         f. Style and appearance of structures
         g. Density
         h. Protection of natural resources
      2. No nationwide or statewide zoning ordinances

   B. Zoning objectives
      1. Zoning classifications generally divide land uses into:
         a. Residential
         b. Commercial
         c. Industrial
         d. Agricultural
      2. **Buffer zones**—such as parks and playgrounds, may be included to separate residential areas from nonresidential areas
      3. Zoning permits
         a. **Zoning hearing boards**—established to hear complaints about the effects zoning may have on specific parcels of property
         b. **Nonconforming use**—generally applies to properties that conformed with the zoning before it was subsequently changed
         c. **Variance**—a permanent exception to the zoning ordinance
         d. **Conditional-use permit**—granted to a property owner to temporarily allow a special use that is in the public interest

VII. Building Codes
   A. Specify minimum construction standards
   B. Require building permits and periodic construction inspections

VIII. Subdivision
   A. Subdivision and land development ordinances part of comprehensive plan
      1. **Subdividor**: buys undeveloped acreage and divides into smaller lots for sale
      2. **Developer**: constructs improvements on subdivided parcels
   B. Regulation of land development
      1. Controlled by state and local government
      2. State sets minimum requirements; local government has higher standards

3. **Plats**
    a. Detailed map showing individual lots
    b. Includes engineering data and restrictive covenants

C. **Zoning ordinances**—generally provide for street, road, and highway specifications; water main, sanitary sewer, and storm sewer installation; easements or right of ways for public utilities; minimum lot sizes and setback lines; and areas to be reserved or dedicated for public use

IX. **Private Land-Use Controls**—to control and maintain the desirable quality and character of a property or subdivision

A. **Deed restrictions**—originated at the time ownership is conveyed (deed) to limit the use

B. **Restrictive covenants**—included in a subdivision plat or separate recorded document to set standards for all the parcels in a subdivision including
    1. The type of building allowed on the property
    2. The use to which the land may be put
    3. The type of construction
    4. Height, setbacks, square footage

C. Legal Issues regarding private restrictions
    1. Restrictions that prohibit the free alienation (transfer) of property ownership are usually against public policy and, thus, void and unenforceable
    2. Restrictions that limit land use are usually valid
    3. Overly broad and repugnant restrictions are usually overturned by the courts
    4. If restrictions conflict with the zoning ordinances, the more restrictive of the two will take precedence
    5. Enforcement of private restrictions usually requires an injunction
    6. Delaying such enforcement can result in **laches**

Textbook Reference
Chapters 14 and 15

<u>LECTURE OUTLINE:</u>

I. Mortgage Law
A mortgage is a voluntary lien on real estate, given by the <u>mortgagor</u> to secure the payment of a debt or the performance of an obligation to the <u>mortgagee</u>
   A. ***Mortgagor*** *= borrower;* ***mortgagee*** *= lender*
   B. **Title theory states**—the mortgagor gives the mortgagee legal title and retains equitable title. Legal title is returned to the mortgagor upon full payment of the debt
   C. **Lien theory states**—the mortgagor retains legal and equitable title. The mortgagee has only a lien on the property as security for the debt. The lender must initiate foreclosure proceedings to obtain legal title

II. Security and Debt
   A. Any interest in real estate that may be sold may also be used as security (collateral) for a debt
   B. Mortgage loan instruments
      1. Two documents must be signed
         a. The **promissory note** (financing document), the written promise to repay the debt
         b. The **mortgage** (security document), the document that creates the lien or transfers an interest to the creditor
      2. **Hypothecation**—pledging property as collateral without giving up its possession
      3. **Deed of trust**
         a. Similar to, but not identical to, a mortgage
         b. Creates a three-party agreement
         c. Conveys "naked title" or "bare legal title" to the third party (the trustee) who has certain obligations to the lender (the beneficiary); the borrower is the trustor
         d. Generally provides simpler and faster foreclosure than a mortgage

III. Provisions of the Note
   A. The promissory note
      1. Will contain the amount of the debt, the time and method of payment, and the rate of interest
      2. If used with a mortgage, will be payable to the lender
   B. **Interest**
      1. A charge for the use of money
      2. May be due at the end of each payment period—interest in arrears (the normal method of interest payment)
      3. May be due at the beginning of each payment period—interest in advance
   C. **Usury**
      1. Charging interest in excess of maximum rate that may be legally charged
      2. Maximum rate generally set by state law
      3. Some states set fixed amount, others have floating interest rate
   D. **Loan origination fees**—expense that is paid to the lender for generating the loan
   E. **Discount points**
      1. Used to increase the yield (true rate of interest) required by an investor who would purchase a loan
      2. One discount point equals 1 percent of the loan amount
   F. **Prepayment**
      1. Borrower may pay off loan in full at any time before the end of the term of the loan or make additional payments to principal during the term
      2. Penalties may be assessed by the lender to compensate for unearned interest when a loan is paid in full prior to the scheduled end of the loan term
         a. Prepayment penalties may be regulated by state law
         b. Prepayment penalties are prohibited on mortgage loans insured or guaranteed by the federal government or sold to Fannie Mae or Freddie Mac

IV. Provisions of the Mortgage Document or Deed of Trust
   A. Refers to the terms of the note and clearly establishes that the property is security for the debt
   B. Duties of the mortgagor or trustor
      1. Payment of the debt in accordance with the terms of the note
      2. Payment of real estate taxes
      3. Maintenance of adequate insurance to protect the lender's interest in the property
      4. Maintenance of the property to keep it in good repair
      5. Lender authorization before making major alterations
   C. Provisions for default
      1. The lender may accelerate the maturity of the debt in case of default—*acceleration clause*
      2. The lender can step in to pay the real estate taxes or insurance, or physically repair or maintain the property
   D. Release of the mortgage lien or deed of trust. The **defeasance clause** requires the execution of a satisfaction of mortgage (release of mortgage or mortgage discharge) when the note has been paid
      2. Deed of trust requires the execution of a release deed or *deed of reconveyance*
   E. Tax and insurance reserves
      1. Required for some mortgages by the lender; called reserve fund, impound, or trust or escrow account
      2. Accounts set up for real estate taxes and insurance premium
      3. RESPA limits the amount that can be held as reserves
   F. Assignment of rents
      1. May be in the mortgage or deed of trust or in a separate document
      2. Entitles the lender to collect rents directly from the tenants in lieu of the borrower's payment if the borrower defaults on the loan
   G. **Alienation clause**
      1. Also called a resale clause, due-on-sale clause, or call clause
      2. When the property is sold, the lender can declare the entire debt due immediately
      3. The lender can raise the interest rate to the market rate
   H. Recording mortgages and deeds of trust
      1. Recorded in the county where the property is located
      2. Gives constructive notice of the debt
      3. Establishes lien's priority
   I. Priority of mortgages and deeds of trust
      1. Priority is established by the date and time of recordation
      2. Generally, the loan for the purchase is the first lien
      3. Subsequently recorded liens are second mortgages (junior liens)
      4. Lien priorities can be changed with *subordination* agreements

V. Provisions **of Land Contracts (Installment Contract or Contract for deed**)
   A. The buyer (the vendee) agrees to make a down payment and periodic payments of principal and interest and receives equitable title at the signing of the contract
   B. The seller (the vendor) retains legal title during the contract term and agrees to convey legal title to the buyer when the terms of the contract have been fulfilled
   C. Contract permits eviction in case of default with seller keeping any money already paid

VI. **Foreclosure**—the legal procedure whereby the property pledged as collateral is sold to satisfy the debt
   A. Methods of foreclosure—provisions vary from state to state
      1. Judicial foreclosure—the property may be sold by court order
      2. Nonjudicial foreclosure—used when a power-of-sale clause is contained in the security document
      3. All junior liens are eliminated
   B. **Deed in lieu of foreclosure**
      1. Sometimes called a "friendly foreclosure"
      2. The borrower forfeits any equity in the property and deeds it to the lender
      3. Any junior liens remain and become the lender's liability
      4. Lender loses any rights pertaining to FHA or PMI insurance or VA guarantees
   C. Redemption
      1. Provides the opportunity for a defaulting borrower to redeem the property
      2. **Equitable right of redemption**—any time before the foreclosure sale, the defaulted borrower can bring the debt current and have it reinstated
      3. **Statutory right of redemption**—the specific period allowed for redemption after the foreclosure sale; state laws vary widely

D. **Deficiency judgment**
   1. Issued to cover the difference between the amount received at the foreclosure sale and the principal balance owed
   2. Becomes a judgment against the debtor

VII. Introduction to the Real Estate Financing Market
   A. **Federal Reserve System (The Fed)**
      1. Created to help maintain sound credit conditions
      2. Helps counteract inflationary and deflationary trends
      3. Regulates the flow of money and interest rates
         a. Controls bank reserve requirements
         b. Controls bank discount rates

VIII. The **Primary Mortgage Market**
   A. Thrifts, savings associations and commercial banks
   B. Insurance companies
   C. Credit unions
   D. Pension funds
   E. Endowment funds
   F. Investment group financing
   G. Mortgage banking companies
   H. Mortgage brokers

IX. The **Secondary Mortgage Market**
   A. Secondary mortgage market—where loans are bought and sold after they have been funded
   B. The originating lender may service the loan for a fee
   C. **Fannie Mae**
   D. **Ginnie Mae**
   E. Freddie Mac

X. Financing Techniques—although the term “mortgage” is used throughout this chapter, the provisions also apply to deed of trust loans
   A. **Straight loans**
      1. Also called “term loans” or “nonamortizing loans”
      2. Periodic payments of interest only with the entire principal balance due at the end of the loan term
   B. **Amortized loans**
      1. Also called “direct reduction” loan
      2. Level-payment mortgages
         a. Each payment is the same dollar amount
         b. The amount applied to the interest decreases with each payment
         c. The amount applied to the principal increases with each payment
      3. Regular periodic payments are made, with each payment being applied first to the interest owed and the balance to the principal amount
      4. By the end, of the term all the principal has been paid off gradually
   C. **Adjustable-rate mortgages (ARMs)**
      1. Interest rates fluctuate, and therefore, so do the payments
      2. Components include
         a. Interest rate tied to the movement of an index
         b. Interest rate equals the index rate plus a premium, the margin—the lender’s profit and cost of doing business
         c. Rate caps that limit the amount the rate can increase both periodically and over the life of the loan
         d. Payment cap that sets the maximum payment amount (might cause negative amortization)
         e. Adjustment period that sets how often the rate can be changed
   D. **Balloon payment loans**
      1. The periodic payments are not sufficient to fully repay the principal loan balance by the end of the term of the loan
      2. Characteristic of a partially amortized loan
   E. **Growing-equity mortgages (GEMs)**
      1. Known as a rapid-payoff mortgage
      2. Increase in payments during the term of the loan reduces the principal amount more rapidly
      3. Borrower’s equity grows faster than normal

F. **Reverse-annuity mortgages (RAMs**)
   1. Regular monthly payments made to the borrower
   2. The accrued debt (principal and interest) becomes payable at some specified future event, such as the sale of the property or by the estate upon the death of the owner

XI. Loan Programs
   A. Loans are classified based on the loan-to-value ratio
      1. Value based on the sale price or appraisal, whichever is lower
      2. Lower the ratio of debt to value, the higher the down payment; a more secure loan, minimizes lender's risk
   B. **Conventional loans**
      1. Loan-to-value ratio lowest; borrower makes significant down payment
      2. Security for the loan is provided solely by the mortgage
      3. Payment of debt rests solely on the ability of the borrower to pay based on the borrower's
      4. **Private mortgage insurance**
   C. **FHA-insured loans**
      1. FHA —part of the Department of Housing and Urban Development (HUD)
      2. FHA insures real estate loans made by approved lending institutions
      3. **Discount points**—who pays them and in what amount is negotiable between the parties
   D. VA-guaranteed loans
      1. The Department of Veterans Affairs (DVA)
         a. Authorizes the guarantee of home loans for eligible veterans
         b. Sets the minimum service times
      2. VA guarantees real estate loans made by approved lending institutions

XII. Other Financing Techniques
   A. **Purchase-money mortgages**
      1. Can refer to any type of real estate financing for the purchase
      2. Often refers to an extension of credit by the seller to the buyer that enables the buyer to purchase the property; the seller "takes back" a note for some or all of the purchase price
   B. **Package loans**
      1. One loan covering both real and personal property
      2. Usually used in new home sales to include the financing for floor and window coverings, major appliances, and other similar items of personal property
   C. **Blanket loans**
      1. Are one loan secured by multiple parcels of property as collateral
      2. Are usually used in the financing of subdivision developments
      3. Have a partial release clause that enables borrower to get a release of one of the parcels while the lien remains in place on the other parcels
   D. **Open-end loans**
      1. Secure a note for a current loan and for any future advances
      2. Allow a borrower to "open" the loan to increase the debt to its original amount
   E. **Construction loans**
      1. Periodic payments often called "draws"
      2. Made to the general contractor at predetermined progress points
      3. Paid off and replaced by a permanent or "take out" loan

XIII. Financing Legislation
   A. **Truth-in-Lending Act and Regulation Z**
      1. Requires lenders to disclose to borrowers the true cost of obtaining credit so that interest rates among lenders can be compared
      2. Applies to all loans of $25,000 or less for private consumers
      3. Always applies when a residence collateralizes the loan
      4. Does not apply to agricultural loans of over $25,000 and never applies to business or commercial loans
      5. The consumer must be fully informed of all financing charges, including loan origination fees, finders' fees, service charges, discount points, and interest charges
      6. The lender must compute and disclose the annual percentage rate (APR)—the true cost of the financing to be obtained
      7. Three-day right of rescission
         a. Applies to most Regulation Z consumer credit transactions
         b. Does not apply to residential purchase money or first mortgage or deed of trust loans

8. Advertising for real estate financing
    a. Must give the annual percentage rate
    b. APR must include the total finance charges
    c. If any specific loan terms (trigger terms) are mentioned, all terms must be included such as the cash price; required down payment; number, amounts, and due dates of all payments; and the annual percentage rate

B. **Equal Credit Opportunity Act (ECOA)**

1. Prohibits lenders and those who grant or arrange credit to consumers from discriminating on the basis of:
    a. Race
    b. Color
    c. Religion
    d. National origin
    e. Sex
    f. Marital status
    g. Age (provided the applicant is of legal age)
    h. Dependence on public assistance (welfare)
2. Lenders and creditors must inform rejected credit applicants, in writing within 30 days, why credit was denied or terminated

Textbook Reference
Chapters 20 - 22

LECTURE OUTLINE:

I. Equal Opportunity in Housing
   A. All real estate licensees must be aware of federal, state, and local fair housing laws
   B. Purpose of the laws is to create an open, unbiased housing market in which every person has the opportunity to live where he or she chooses within his or her ability to pay
   C. Failure to comply with the laws is not only a criminal act but may also be grounds for disciplinary action against a licensee
   D. State and local laws may be more restrictive than federal law

II. Civil Rights Act of 1866; Fair Housing Act (Title VII of the Civil Rights Act of 1968)—prohibits discrimination in housing; amended by the Housing and Community Development Act of 1974 and the Fair Housing Amendments Act 1988
   A. Protected classes
      1. **Race** – 1866 and 1968
      2. **Color** - 1968
      3. **Religion** - 1968
      4. **National origin** – 1968
      5. **Sex** – 1974
      6. **Handicap** – 1988
      7. **Familial status** - 1988
   B. Prohibited actions
      1. Refusing to sell, rent, or negotiate the sale or rental of housing
      2. Making a dwelling unavailable to any person
      3. Changing terms, conditions, or services for different individuals as a means of discrimination
      4. Advertising that restricts the sale or rental of residential property
      5. Representing that a properties not available for sale or rent when in fact it is
      6. Profiting by inducing owners of housing to sell or rent because of the prospective entry into the neighborhood of persons in the protected classes
      7. Altering the terms or conditions of a home loan or denying a loan as a means of discrimination
      8. Denying membership or participation in any multiple listing service, real estate organization or other facility related to the sale or rental of housing as a means of discrimination
   C. Definitions
      1. Housing—"dwelling:" any building or part of a building designed for occupancy by one or more families
      2. Familial status—one or more individuals who have not reached the age of 18 being domiciled with a parent, guardian, or other person with legal custody, ladies who are pregnant are also protected
         a. All properties available; under the same terms and conditions as for others
         b. Cannot use advertising or occupancy standards with the intent or effect of restricting families with children
      3. Disability—physical or mental impairment (or having a history of same) that substantially limits one or more major life activities
         a. Does not include current illegal use of or addiction to a controlled substance
         b. Does protect individuals in addiction recovery programs
         c. Must provide accommodations and allow reasonable modifications that are necessary at tenants' own expense
         d. See federal and state laws for accessibility guidelines
   D. Exemptions to the Fair Housing Act
      1. The sale or rental of a single-family residence when the home is owned by an individual who does not own more than three such homes at one time, and a real estate broker and discriminatory advertising is not used
      2. The rental of rooms or units in an owner-occupied one- to four-family dwelling
      3. Dwelling units owned by religious organizations may be restricted to people of the same religion if membership in the organization is not restricted on the basis of the protected classes

4. A private club that is not open to the public may restrict the rental or occupancy of the lodgings that it owns to its members as long as the lodgings are not operated commercially
5. Housing for older persons is exempt from the familial status protection:
   a. If intended for persons at least 62 years old
   b. If at least 80 percent of the units are occupied by at least one person at least 55 years of age

E. **Equal Credit Opportunity Act** (ECOA)—prohibits discrimination in the granting of credit based on race, color, religion, national origin, sex, marital status or age (if the applicant is of legal age), welfare

F. **Americans with Disabilities Act**—provides for nondiscriminatory employment procedures and accessibility to goods and services by people with disabilities

III. Issues in Fair Housing Practices

A. **Blockbusting**—inducing homeowners to sell by making representations regarding the entry or prospective entry of into the neighborhood by people in the protected classes

B. **Steering**—channeling homeseekers into or out of particular areas on the basis of race, color, religion, national origin, or other protected class; the effect of limiting choices

C. **Advertising**—language that indicates a preference or limitation is discriminatory, such as:
1. Trying to attract one population to exclusion of others
2. Selection of media

D. **Appraising**—cannot consider factors related to the protected classes when preparing valuations or appraisals

E. **Redlining**—refusing to make mortgage loans or issue insurance policies in specific areas for reasons other than the economic qualifications of the applicant

IV. Enforcement of the Fair Housing Act

A. Administered by the Office of Fair Housing and Equal Opportunity (OFHEO) under the direction of the Secretary of HUD
1. A complainant has one year after the alleged act of discrimination to file a charge with HUD or two years to bring a federal suit
2. HUD will investigate to see if discrimination actually occurred. HUD will attempt to resolve by conciliation
3. Unless someone connected with the charge requests that it be heard in federal district court, an administrative law judge from HUD will hear the charge
4. The administrative law judge has the authority to issue an injunction, award actual damages and impose civil penalties of:
   a. Up to $10,000 for first offense
   b. Up to $25,000 for second offense within 5 years
   c. Up to $50,000 for further violations within 7 years
5. Cases heard in federal court can result in the award of actual and unlimited punitive damages
6. Complaints brought under Civil Rights Act of 1866 taken directly to federal court

B. State and local enforcement agencies
1. Many states and municipalities have own fair housing laws
2. All complaints filed with HUD referred to local enforcement agencies if their laws are substantially equivalent with federal law

C. Threats or acts of violence—the Fair Housing Act protects those who seek or encourage the exercise of open housing rights

V. Implications for Brokers and Salespeople

A. Real estate industry largely responsible for creating and maintaining open housing market
1. Social as well as legal responsibility
2. Reputation of industry cannot afford even the appearance of illegal discrimination

B. Good business practices will minimize the potential for charges of discrimination
1. Office policies and procedures to avoid discrimination
2. Standardized inventory of property listings
3. Consistent practices
4. Verifiable and measurable criteria for property seekers
5. Written documentation of all aspects of a transaction
6. “Are we doing this for everyone”
7. The broker should display the equal housing opportunity poster

VI. Environmental Issues
   A. Need to balance commercial use of land with preservation of vital resources and protection of the quality of water and soil
   B. Prevention and cleanup of pollutants and toxic wastes revitalize land and add greater opportunity for responsible development
   C. Environmental issues are important in practice of real estate
      1. Consumer more health and safety conscious
      2. Licensees must be alert to existence of environmental hazards
         a. Disclosure at time of transfer of property
         b. Familiar with state and federal environmental laws and regulatory agencies
         c. Disclosure at time of transfer of property
         d. Familiar with state and federal environmental laws and regulatory agencies

VII. Hazardous Substances
   A. **Asbestos**
      1. Once used as insulation; banned in 1978
      2. About 20 percent of the nation's commercial and public buildings contaminated
      3. Health hazard
         a. Inhaling
         b. Harmful only when disturbed or exposed
         c. Highly friable
         d. No safe level of asbestos exposure
      4. Used also in residential properties
         a. To cover pipes, ducts
         b. Fire resistant property made it popular
      5. Costly to remove
         a. Requires state licensed technicians and specially sealed environments
         b. Disposal at licensed facilities
         c. Encapsulation, or sealing off of disintegrating asbestos, may be preferable method of containment
   B. **Lead-based paint** and other lead hazards
      1. Lead used as paint pigment
      2. Present in about 75% of private housing built before 1978
      3. Elevated levels in body cause serious damage to brain, kidneys, nervous system and red blood cells
      4. Lead particles can be present anywhere in soil and ground water
      5. Use of lead-based paint banned in 1978
      6. No federal regulations that homeowners test for presence of lead-based paint
      7. EPA and HUD regulations require disclosure of any known lead-based paint hazards to potential buyers and renters. Must attach form to all residential leases and sales contracts along with hazard pamphlet
   C. **Radon**
      1. Caused by natural decay of other radioactive substances
      2. Hazardous when trapped in buildings in high concentration
      3. Colorless/tasteless—impossible to detect without testing
      4. Levels of radon can be reduced by installing ventilation systems or exhaust fans
      5. Home radon-detection kits available. Most accurate testing by radon detection professionals
   D. **Urea-formaldehyde** (UFFI)
      1. Primarily used in insulation. Also found in some glues, resins, pressed wood, etc.
      2. Consumer Product Safety Commission banned use in 1982
      3. Ban reduced to warning by courts
      4. Causes several health problems
      5. Tests can be conducted to determine presence of or level of formaldehyde gas in home
   E. **Carbon monoxide**
      1. Colorless, odorless gas byproduct of burning fuels due to incomplete combustion
      2. Improper ventilation of equipment, malfunction creates problems
      3. Detectors are available, mandatory in some areas
   F. **Mold**
      1. Can grow on almost any organic substance if moisture and oxygen are present
      2. Gradually destroys what it is growing on and also causes serious health problems. Trigger allergic reactions and asthma attacks. Also produce potent toxins and irritants
      3. Construction practices that result in tightly sealed buildings may prevent adequate ventilation and promote mold. Other causes are roof leaks, unvented combustion appliances, and outside water being directed into building by gutters or landscaping

4. EPA has published guidelines for remediation or clean-up
5. Number and size of lawsuits growing

VIII. Underground Storage Tanks
- A. Three to five million underground storage tanks (USTs) in the United States. Commonly found:
    1. Where petroleum products used or gas stations/auto repair shops located
    2. Dry cleaners/food processing plants
    3. Chemical or other process waste storage facility
- B. EPA regulates tanks that contain hazardous substances or petroleum products and that store at least 10 percent underground

IX. CERCLA and Environmental Protection - Comprehensive Environmental Response, Compensation and Liability Act
- A. Created “SuperFund” ($9 billion)
- B. Created process by identifying responsible parties (PRPs) and ordering them to take responsibility
- C. Administered by EPA

X. Conducting the Closing
- A. Face-to-face closing—the gathering of the parties interested in the real estate transaction at which the promises made in the real estate sales contract are kept or executed
    1. Two issues are resolved
        - a. The closing of the buyer’s loan
        - b. The closing of the sales transaction
    2. May be attended by
        - a. The buyer
        - b. The seller
        - c. The real estate licensees (brokers and salespeople)
        - d. The attorney(s) for the seller and the buyer
        - e. The representative of the involved lending institutions
        - f. The representative of the title insurance company
- B. Closing in escrow
    1. The method of closing in which a disinterested third party is authorized to act as the escrow agent and coordinate the closing activities
    2. Because the escrow agent is placed in a position of trust, many states have laws regulating escrow agents and limiting who may serve in this capacity
- C. IRS reporting requirements—Form 1099-S
    1. Contains the seller’s social security number, sales price, and the amount of property tax that was reimbursed to the seller by the buyer
    2. Must be filed by the closing agent; if this person does not, the responsibility rests on the mortgage lender or ultimately the brokers involved

XI. RESPA Requirements
- A. Purpose
    1. To provide consumers with greater and more timely information on the nature and costs of settlement
    2. To eliminate “kickback” and other referral fees that tend to unnecessarily increase the costs of settlement
- B. RESPA requirements must be complied with when the purchase of a one-to-four-family residential unit is financed by a federally related new first mortgage loan
    1. Made by a federally chartered lending institution
    2. Made by an institution whose deposits are federally insured
    3. FHA-insured
    4. VA-guaranteed
    5. Administered by HUD
    6. Intended to be sold to Fannie Mae, Ginnie Mae, or Freddie Mac
- C. Exceptions to the “new loan” requirement
    1. Purchase money mortgage taken back by the seller
    2. Installment sales (land contracts)
    3. Buyer’s assumption of existing mortgage
    4. No exception if:
        - a. The terms of assumed loans are modified
        - b. Assumed loans for which the lender charges more than $50 for the assumption

D. Controlled business arrangements (CBAs)—affiliated firms offer package of services to consumers
   1. The relationship between the firms must be disclosed in writing to consumers
   2. Consumers must be free to obtain the services elsewhere
   3. Fees are not exchanged among the affiliated companies simply for the referral of business

E. **Disclosure requirements**
   1. The lender must give a copy of special informational HUD booklet to every person from whom they receive or for whom they process a loan application
   2. Within three business days of the loan application, the lender must provide the borrower with a good-faith estimate of the settlement costs the borrower is likely to incur
   3. The loan closing information must be prepared on the Uniform Settlement Statement (Form HUD-1) and available for inspection at or before settlement
   4. Kickbacks and *unearned* referral fees are prohibited

Textbook Reference
Chapters 16 and 17

LECTURE OUTLINE:

I. Leasing Real Estate
   A. Definition—**Lease**
      1. A contract between owner of real estate (lessor) and tenant (lessee) to transfer rights of exclusive possession and use in exchange for the payment of rent and other obligations
      2. The owner retains the reversionary right to possession
   B. **Statute of Frauds**
      1. In most states, to be enforceable, a lease for more than one year must be in writing
      2. A lease that can be performed in a lesser period of time is usually enforceable in court even if it is oral

II. Leasehold Estates
   A. **Estate for years (tenancy for years)**
      1. Continues for a definite period of time, regardless of how long
      2. Specific beginning and ending dates
      3. No notice is required to terminate
      4. Does not automatically renew
   B. **Estate from period to period (periodic tenancy)**
      1. Exists for a fixed period of time but automatically renews itself
      2. The payment and acceptance of the rent extends the lease for another period
      3. Proper notice must be given to terminate the lease
      4. Holdover tenancy
         a. Created when tenant with estate for years remains in possession
         b. Landlord may evict or treat holdover tenant as one who has periodic tenancy
   C. **Estate at will (tenancy at will)**
      1. Exists with the consent of the landlord
      2. Usually informal and oral
      3. Indefinite in length
      4. Proper notice must be given to terminate
      5. Automatically terminates at the death of either party
   D. **Estate at sufferance (tenancy at sufferance)**
      1. Created when the tenant who legally obtained the possession of the property now illegally remains in possession
      2. Exists without the consent of the landlord
      3. Examples
         a. Tenant whose lease has expired but refuses to move out
         b. Owner whose property has been foreclosed but refuses to vacate the premises

III. Lease Agreements
   A. Requirements (essential elements) of a valid lease
      1. Offer and acceptance—meeting of the minds of the parties
      2. Consideration—usually rent but can be labor or other services
      3. Capacity to contract—all parties must be legally competent
      4. Legal objectives—intent of the contract must be legal
   B. A complete description of the premises should be clearly stated, including specific facilities included in the lease; preprinted lease agreements better suited for residential property; commercial lease more complex, legal counsel should be consulted
   C. Possession of premises
      1. The covenant of quiet enjoyment for the tenant is implied by law regardless of whether addressed in the lease
      2. Landlord is allowed to enter property with tenant's permission
   D. Use of premises—if the use is to be limited in any manner, that use must be specifically stated in the lease
   E. Term of lease—dates should be stated precisely

F. Security deposit
   1. Held by the landlord during the lease
   2. Applied to unpaid rent or repairs
   3. State or local law may set minimums or maximums
G. Improvements
   1. Generally, neither party is required to make improvements
   2. The tenant may make improvements with permission
   3. Any trade fixtures should be identified in the lease
   4. Accessibility
      a. Federal Fair Housing Act makes it illegal to discriminate on basis of physical disabilities. Tenants may make reasonable modifications to property but must restore at end of lease term
      b. American with Disabilities Act (ADA) applies to commercial, nonresidential property; requires that they be free of architectural barriers or provide reasonable accommodations for people with disabilities
H. Maintenance of premises
   1. Historically, the landlord is not obligated to make repairs
   2. Under current landlord-tenant laws, some jurisdictions require landlords to make repairs on residential units to keep them in habitable condition and maintain the common areas
   3. The tenant must return the premises in the same condition as received, except for ordinary wear and tear
I. Destruction of premises
   1. The tenant is obligated to pay rent if the improvements are destroyed when
      a. The property is agricultural land
      b. In most states, the lease is a ground lease
      c. In some cases, the tenant rents an entire building
   2. If part of a building is destroyed, the tenant is usually not required to continue to pay rent
J. **Assignment and subleasing**
   1. Can be prohibited by the terms of the lease
   2. Assignment is the transfer of **all** of the tenant's interest
   3. Subleasing is the transfer of **part** of the tenant's interest
   4. Either may require the lessor's consent
   5. The tenant/sublessor's interest in a sublease is known as a sandwich lease
K. Recording a lease
   1. Recording—varies according to state laws and the length of the lease; leases of three years or longer generally are recorded
   2. In some states only a memorandum of lease is recorded
L. Options
   1. The privilege of renewing or extending the lease or purchasing the property at a predetermined price and time
   2. The tenant must give notice of intention to exercise the option
   3. The lease is the primary consideration, the option is secondary
M. **Right of First Refusal** – right to lease (or buy) if lessor (or seller) decides to lease (or sell) but cannot force lessor (or seller) to act.

IV. Types of Leases
A. **Gross lease**
   1. The tenant pays a fixed rental amount
   2. The landlord pays all of the property charges
   3. Most often used for residential apartment rentals
B. **Net lease**
   1. The tenant pays a fixed rental amount
   2. The tenant also pays some or all of the property charges (in a triple-net lease, the tenant pays all operating and other expenses)
   3. Generally used for entire commercial or industrial buildings and the land on which they are located. Ground leases and long-term leases, too
C. **Percentage lease**
   1. The tenant pays a fixed amount of rent plus a percentage of the gross income of the business. A gross lease or net lease may also be a percentage lease
   2. The percentage and basis agreed to between the parties
   3. Most commonly used in retail locations
   4. Specifics vary with the type of business and its location

D. Other lease types
   1. **Variable lease**—provides for increases in rent during the lease period
      a. **Graduated lease**—provides for increases in rent at set future dates in specified amounts
      b. **Index lease**—periodic increase or decrease in rent based on changes in some economic index
   2. **Ground lease**
      a. Usually involves separate ownership of land and buildings
      b. Allows the tenant to construct a building on land that he or she does not own and use the premises thereafter
      c. Generally set up as a net lease
      d. Typically for terms of 50 up to 99 years
   3. **Oil and gas lease**
      a. The owner receives cash for giving exploration rights
      b. If petroleum is found, the owner usually receives a percentage of its value as a royalty
   4. **Lease-purchase**
      a. The tenant leases the property in advance of its purchase usually for tax or financing reasons. Part of the rent is applied toward the purchase price
      b. The purchase is the primary consideration, the lease is secondary
   5. **Agricultural lease**
      a. Rent can be paid by the tenant in advance (cash rents)
      b. The tenant and owner can share the profits from the sale of the crop when it is sold (sharecropping)

V. Discharge of Lease
   A. Termination
      1. No notice is required to terminate a tenancy for years
      2. The parties can mutually agree to cancel the lease
      3. The tenant may surrender the leasehold interest if the landlord is willing to accept it
      4. A tenant who abandons the property is still liable for the terms of the lease, including rent payments
      5. When the owner of leased property dies or the property is sold, the lease does not terminate except for
         a. A lease from the owner of a life estate
         b. The death of either party to a tenancy at will
         c. A sale clause in the lease
      6. Oral and written leases without specific expiration dates require proper notice to terminate as required by law
      7. If a lease is breached, it may be terminated according to state law
   B. Breach of lease
      1. If the tenant breaches the lease, the landlord may sue for overdue rent, damages to the premises, or other defaults
      2. Suit for possession—**actual eviction** (landlord evicts the tenant)
         a. The landlord must serve notice to the tenant; the number of days varies according to law
         b. If the tenant does not leave peaceably, the court may have the tenant and his or her possessions forcibly removed
      3. Tenants' remedies—**constructive eviction** (tenant evicts himself or herself)
         a. If the landlord breaches the lease, the tenant has the right to sue for damages
         b. The tenant may abandon the premises if:
            (1) The landlord's action or inaction has rendered the premises uninhabitable
            (2) The tenant must remove himself or herself because of the premises not being usable

VI. Fair Housing Laws
   A. To ensure that all persons have access to housing of their choice, including rentals, within their ability to pay, without differentiation in terms and conditions, because of their race, color, religion, sex, familial status, handicap, or national origin
   B. Changes in 1988 have significant impact on rental practices:
      1. Protections for people with disabilities
      2. Protections for families with children
   C. Examples: cannot segregate individuals in sections of a complex; must allow people with disabilities to alter the premises; cannot charge different amounts of rent or security deposit

VII. The Property Manager
   A. Property management—a specialized profession; responsible for
      1. Financial management
      2. Physical management
      3. Administrative management
   B. Property Manager vs. Leasing Agent
   C. Maintaining the property
      1. The property manager must balance the service requirements of the property with the costs they entail
      2. The physical integrity of the property must be protected
         a. Preventive maintenance—regularly scheduled activities to maintain the structure
         b. Repair or corrective maintenance—fixing items that are broken
         c. Routine maintenance—routine cleaning and repairs
         d. Construction—in nonresidential properties, the alterations to make tenant improvements

KEY MEASUREMENTS

Linear Measure:

12 inches (12")	=	1 foot (1 ft.)
3 feet (3')	=	1 yard (1 yd.)
5,280 feet (5,280')	=	1 mile (1 mi.) = 1,760 yards

Surface Area Measure:

12 inches x 12 inches	=	144 square inches (144 sq. in.)
1 foot x 1 foot	=	1 square foot (1 sq. ft.)
1 square foot	=	144 square inches
3 feet x 3 feet	=	9 square feet
9 square feet	=	1 square yard (1 sq. yd.)
43,560 square feet	=	1 acre (1 A.)
1 acre	=	approximately 208.71' x 208.71'
1 mile x 1 mile	=	1 square mile
640 acres	=	1 section
1 square mile	=	1 section = 640 acres
36 sections (6 mi. x 6 mi.)	=	1 township
36 square miles	=	1 township

Cubic Area (Volume):

12" x 12" x 12" (1 cu. ft.)	=	1,728 cubic inches
3' x 3' x 3' (1 cu. yd.)	=	27 cubic feet
1 board foot	=	144 cubic inches (12" x 12" x 1")

Circular Measure:

60 seconds (60")	=	1 minute (1')
60 minutes (60')	=	1 degree (1º)
360 degrees (360º)	=	a circle

KEY FORMULAS

Formulas to Use in Unknown Area Problems:

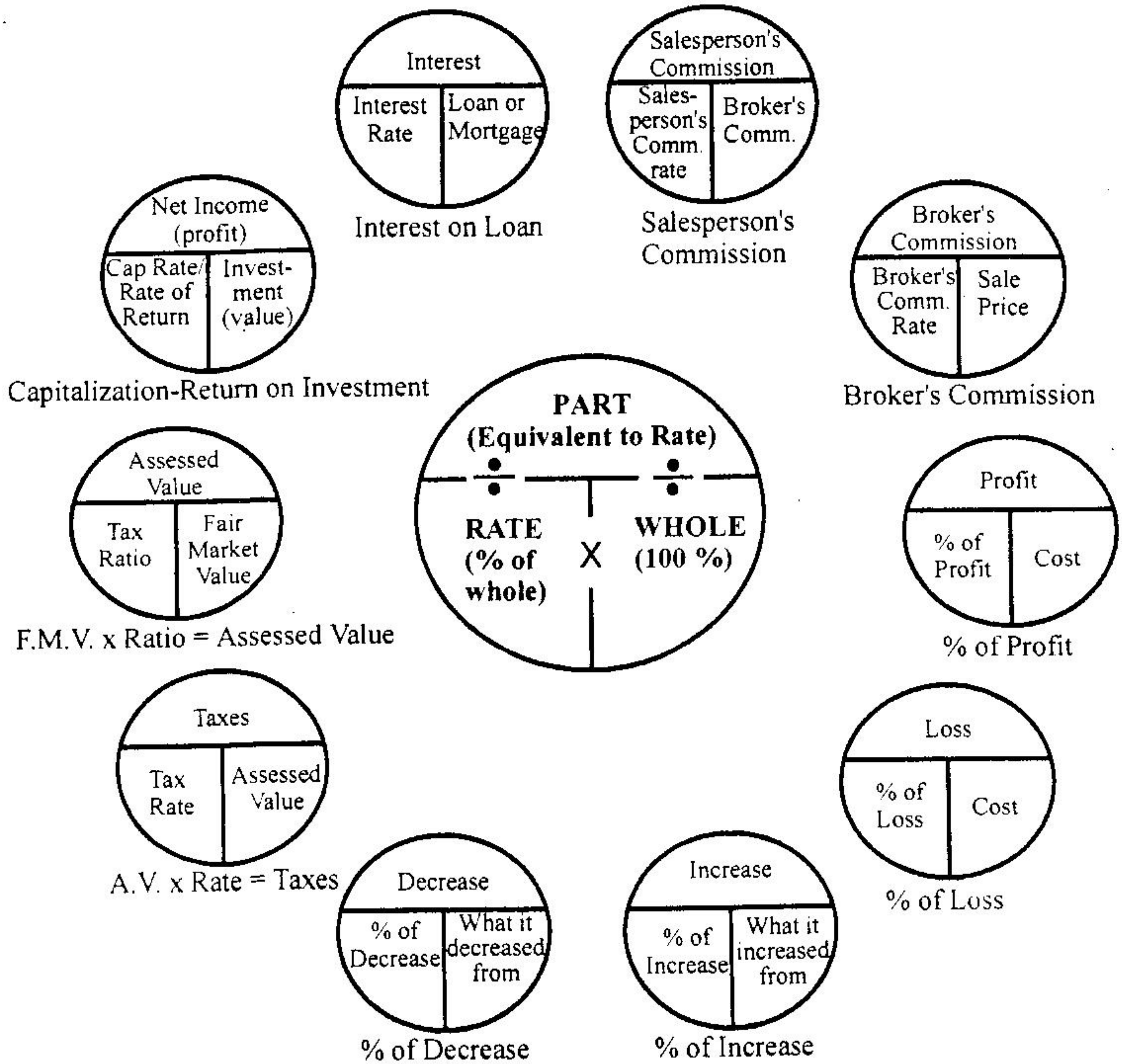
1. For all squares, rectangles, and parallelograms, use the following formula: Area = Base x Height
2. For all triangles, use the following formula: Area = Base x Height x ½
3. For all trapezoids, use the following formula: Area = Base One + Base Two) x ½ x Height of the two parallel sides, either one may be used as B^1 or B^2.
4. For all circles, use the following formulas:
   To find the area of a circle: Area = Pi x Radius squared
   To find the circumference of a circle: Circumference = Pi x Diameter

Formulas to Use in Cubic Measure (Volume) Problems:

From time to time, it is necessary to determine the volume of a room, building, or other enclosure, such as a silo. Volume is always expressed in cubic units (cubic inches, cubic feet, etc.).

To calculate volume, one step of a computation is added to the calculation of area. It involves a third dimension in addition to the dimensions required to find area.

1. To find the volume (cubic measure) of all squares and rectangles, use the following formulas: Volume = Length x Width x Height
2. To find the volume of a cylinder, use the following formula: Volume = Pi x Radius squared x Height
   A cylinder should be visualized as a circle with height added. Thus the above formula is the area of a circle times height.


Interest
Interest Rate
Loan or Mortgage
Interest on Loan
Salesperson's Commission
Sales-person's Comm. rate
Broker's Comm.
Salesperson's Commission
Net Income (profit)
Cap Rate/ Rate of Return
Invest-ment (value)
Capitalization-Return on Investment
Broker's Commission
Broker's Comm. Rate
Sale Price
Broker's Commission
PART (Equivalent to Rate)
RATE (% of whole)
X
WHOLE (100 %)
Assessed Value
Tax Ratio
Fair Market Value
F.M.V. x Ratio = Assessed Value
Profit
% of Profit
Cost
% of Profit
Taxes
Tax Rate
Assessed Value
A.V. x Rate = Taxes
Loss
% of Loss
Cost
% of Loss
Decrease
% of Decrease
What it decreased from
% of Decrease
Increase
% of Increase
What it increased from
% of Increase

Practical Math I

Commissions

1. A house sells for $210,000 and the broker charges a 7% commission, what is the broker's commission?

2. A three-bedroom house sells for $274,000 and the broker's total commission is 6 percent of the selling price. The commission is:

3. The commission on a house that sells for $396,000 is $19,800. What was the rate of commission?

4. A broker agrees to list a house for $289,000 and it eventually sells for $272,000. The broker agrees to a commission of 8% of the first $100,000 and 6% of anything over $100,000. What is the broker's commission?

5. On a $378,000 sale of a house, the rate of commission is 6%. The salesperson gets 40% of the commission and the broker gets the remainder. How much does the broker get?

6. A salesperson received $5,280 for selling a house. This was 40% of the total commission on the sale of a $220,000 house. What was the commission rate on the sale?

7. A house sold for $210,000 and the rate of commission was 6%. If the salesperson got $3,780, what percentage of the commission did the salesperson get?

8. A broker charges a rental management fee of two-thirds of the first month's rent, and 10% of each month's rent thereafter. He must pay a $100 "finder's fee" to an agent. If the house rents for $1200 per month, how much does the licensed broker make in one year?

9. A broker gets 6% of the first $100,000 and 3% of any amount over $100,000. What would be the loss to the broker if a house listed for $280,000 has to be reduced by 20%?

10. An agent sells an average of 3 houses per month and receives 60% of the total commission. If the house sold for an average of $189,000 each and the commission rate was 7%, what was the agent's annual income?

11. Two agents agree to share their commissions on a 60:40 split. If the total commission was $114,000, how much did each agent get?

12. If Susie Salesperson gets 30% of each listing commission and 40% of each sales commission and the commission rate was 7%, how much would the agent make if her annual sales totaled $4,000,000 and her listings totaled $3,600,000?

13. An agent received a commission check for $15,540 for her share of a sale on which the commission was 7% and the agent's share was 60%. What was the sale price of the house?

14. Broker Bob offers you a choice of the following plans. On which would you make the most income if your sales total $5,000,000 a year and the broker's commission was 7%
    - Plan A: straight 60% of the broker's commission
    - Plan B: $2,000 per month plus 40% of the broker's commission
    - Plan C: 50% of the broker's commission on the first $4,000,000 in sales and 90% of anything over $4,000,000

15. Broker L (listing broker) and Broker S (selling broker) agree to share a commission 60:40 in favor of the listing broker. The salespeople for each broker get 60% of their broker's side of the sale. If a house sold for $276,000 at a commission rate of 7%, how much did the listing salesperson make on the sale?

16. A broker shares commission with his salesperson on a 3:5 ratio in favor of the salesperson. If a commission of $16,275 is earned by the salesperson, on a sale at 7% what did the house sell for?

17. A list price was set to leave the owner with $190,820 after a 6% commission was deducted from the sales price. What was the list price?

18. A salesperson was to receive 30% of the office share of the commission for obtaining a listing. She listed a house for $285,000 and it was sold for $270,000 by another office with the selling office receiving one-half of the 6% commission. Her listing commission was:

19. Your commission on a sale is 7 3/4% of $200,000. What is the dollar amount of your commission?

20. Assume a house sold for $284,500 and the commission rate was 7%. If the commission is split 60/40 between the selling broker and the listing broker, and each broker splits his share of the commission evenly with his salesperson, how much will the listing salesperson earn from the sale of the house, according to the sales contract?

21. Assume a house sold for $195,900 and the commission rate was 7%. The listing and selling brokers split the commission fifty-fifty. The listing broker gives the listing salesperson 30% of his commission, and the selling broker gives the selling salesperson 35% of his commission. How much does the selling salesperson earn from the sale after deducting advertising expenses of $35?

22. Assume that listing and selling brokers split a commission fifty-fifty and that they then split their shares of the commission fifty-fifty with their respective salespeople. If a house sold for $368,500 and the salesperson of the realty company that sold the house received a commission of $5,527.50, what is the commission rate on the sale?

23. Broker Bob pays his salespeople 20% of the commission for listing a property and 40% of the commission for selling it. The commission rate is 5%. What was the selling price of a house if the salesperson who both listed and sold it received $7,200?

24. A salesperson received $8,250 as his 50% of the commission on a $275,000 sale. The full commission was computed at what rate?

25. On the sale of a house, broker Betty earns 7% of the first $150,000 and 3% of any amount over $150,000. What was the selling price of a house if her total commission was $14,250?

26. A broker was paid 6% commission on the first $200,000 of a house that sold for $250,000. If the total commission was $14,500, what was the percent of commission paid on the balance?

27. John Smith earns an 8% commission on the first $175,000 of sales for the month and 3% for all sales over that amount. If Mr. Smith sold houses totaling $362,100 for the month, how much more would he have earned at a straight 6% commission?

28. Salesperson Sally sells a house for $284,500. The listing broker receives 50% of the 6% commission. How much does the salesperson receive if she gets 40% of the commission due the selling broker?

29. Jane Smith took a listing for her company, ABC Realty, which sold for $282,500. Mary Jones, who works for First Realty, produced the purchasers. The brokers have agreed to divide the 7% commission equally and Jane will receive 55% of her broker's share, which is:

30. A seller received $263,200 after her broker deducted the agreed 6% commission. The sale price was what?

31. A salesperson sells a property for $358,500. The contract he has with the employing broker gives him 40% of the total commission earned. The commission due to the broker from the seller is 6%. What is the salesperson's share of the commission?

32. A broker received half of the first month's rent as commission for leasing an apartment and 5% of each month's rent thereafter for collecting the monthly rent of $550.00. What would the broker's total fee be after 18 months?

ANSWERS

1. **ANSWER**: $14,700 broker's commission
   $210,000 x 7% = $14,700

2. **ANSWER:** $16,440 broker's commission
   $274,000 x 6% = $16,440

3. **ANSWER:** 5% commission
   $19,800 ÷ $396,000 = 5%

4. **ANSWER:** $18,320 broker's commission
   $100,000 x 8% = $ 8,000 (on 1st $10,000)
   $172,000 x 6% = $10,320 (on remainder)
   $18,320 broker's commission

5. **ANSWER:** $13,608 broker's commission
   $378,000 x 6% = $22,680 total commission
   $22,680 x 60% = $13,608 broker's commission

6. **ANSWER:** 6% commission rate
   $5,280 ÷ 40% = $13,200 total commission
   $13,200 ÷ $220,000 = 6% commission rate

7. **ANSWER:**
   30% salesperson's commission rate
   $210,000 x 6% = $12,600 total commission
   $3,780 ÷ $12,600=30% salesperson's com. rate

8. **ANSWER:** $2,020 per year
   $1200 x 2/3 = $800 (on 1st month's rent)
   $1200 x 10% = $120 x 11 months = $1320
   $1320 + $800 = $2,120 total rent collected
   $2,120 -$100 (referral fee) = $2,020 total per yr

9. **ANSWER:** $1,680 Loss
   $200,000 x 6% = $12,000
   $ 80,000 x 3% = $ 2,400
   $14,400

   $280,000 - 20% = $224,000

   $200,000 x 6% = $12,000
   $ 24,000 x 3% = $ 720
   $ 12,720

   $14,400 - $12,720 = $1,680 Loss

10. **ANSWER:** $285,768 agent's commission
    3 x 12 = 36 houses
    36 x $189,000 = $6,804,000 total sales
    $6,804,000 x 7% = $476,280 total comm.
    $476,280 x 60% = $285,768 agent's comm.

11. **ANSWER:** $68,400 and $45,600
    $114,000 x 60% = $68,400
    $114,000 x 40% = $45,600

12. **ANSWER:** $187,600 total commission
    $4,000,000 x 7% x 40% =$112,000 sales com.
    $3,600,000 x 7% x 30% =$ 75,600 list. com.
    $ 187,600 total com.

13. **ANSWER:** $370,000 sale price
    $15,540 ÷ 60% = $25,900 total commission
    $25,900 ÷ 7% = $370,000 sale price

14. **ANSWER:** Plan A
    Plan A:
    $5,000,000 x 7% = $350,000 total comm.
    $350,000 x 60% = $210,000 sales comm.
    Plan B:
    $5,000,000 x 7% = $350,000 total comm.
    $350,000 x 40% = $140,000 sales comm.
    $2,000 x 12 months = $24,000
    $24,000 + $140,000 = $164,000
    Plan C:
    $4,000,000 x 7% = $280,000
    $280,000 x 50% = $140,000
    $1,000,000 x 7% = $70,000
    $70,000 x 90% = $63,000
    $140,000 + $63,000 = $203,000

15. **ANSWER:** $6955.20 salesperson comm.
    $276,000 x 7% = $19,320 total comm.
    $19,320 x 60% = $11,592 Broker L's comm.
    $11,592 x 60% =$6955.20 salesperson's com

16. **ANSWER:** $372,000 sale price
    3:5 = 3/8;5/8
    5/8 = 62.5%
    $16,275 ÷ 62.5% = $26,040 total commission
    $26,040 ÷ 7% = $372,000 sale price

17. **ANSWER:** $203,000 list price
    $190,820 ÷ 94% = $203,000 list price

18. **ANSWER:** $2,430 salesperson's comm.
    $270,000 x 6% = $16,200 total comm.
    $16,200 x 50% = $8,100 broker's comm.
    $8,100 x 30% = $2,430 salesperson's com

19. **ANSWER:** $15,500 commission
    $200,000 x 7.75% = $15,500

20. **ANSWER**: $3,983 listing agent's comm.
    $284,500 x 7% = $19,915 total comm.
    $19,915 x 40% = $7,966 listing broker comm.
    $7,966 x 50% = $3,983 agent's comm.

21. **ANSWER:** $2,364.78 Earned
    $195,900 x 7% = $13,713 total comm.
    $13,713 x 50% = $6,856.50 selling broker com
    $6,856.50 x 35% = $2,399.78 agent's comm.
    - $ 35.00 advertising rate
    $ 2,364.78 Earned

22. **ANSWER:** 6%
    $5,527.50 ÷ 50% ÷ 50% = $22,110
    $22,110 ÷ $368,500 = 6%
23. **ANSWER:** $240,000 Selling Price
    $7,200 ÷ 60% = $12,000 Total Commission
    $12,000 ÷ 5% = $240,000 Selling Price

24. **ANSWER:** 6%
    $8,250 ÷ 50% = $16,500
    $16,500 ÷ $275,000 = 6%

25. **ANSWER:** $275,000
    $150,000 x 7% = $10,500
    $14,250 - $10,500 = $3,750 (balance)
    $3,750 ÷ 3% = $125,000
    $150,000 + $125,000 = $275,000

26. **ANSWER:** 5%
    $200,000 x 6% = $12,000
    $14,500 - $12,000 = $2,500
    $2,500 ÷ $50,000 (balance) = 5%

27. **ANSWER:** $2,113 more
    $362,100 x 6% = $21,726 (Straight 6%)
    $362,100 - $175,000 = $187,100
    $175,000 x 8% = $14,000
    $187,100 x 3% = $ 5,613
    $19,613
    $21,726 - $19,613 = $2,113 more

28. **ANSWER:** $3,414 Sales Commission
    $284,500 x 6% = $17,070 Total Commission
    $17,070 x 50% = $8,535 Broker Commission
    $8,535 x 40% = $3,414 Sales Commission

29. **ANSWER:** $5,438.13 Sales Commission
    $282,500 x 7% = $19,775 Total Commission
    $19,775 x 50% = $9,887.50 Broker Commission
    $9,887.50 x 55% = $5,438.13 Sales Comm.

30. **ANSWER:** $280,000 Sale Price
    $263,200 ÷ 94% = $280,000 Sale Price

31. **ANSWER:** $8,604 Sales Commission
    $358,500 x 6% = $21,510 Total Commission
    $21,150 x 40% = $8,604 Sales Commission

32. **ANSWER:** $742.50 Total Commission
    $550 x 50% = $275 (1st month)
    $550 x 5% = $27.50
    $27.50 x 17 months = $467.50
    $467.50 + $275 = $742.50 Total Comm.

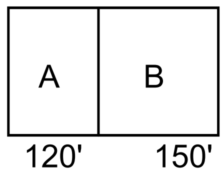
Practical Math II

Area and Volume

1. How many linear feet of fence would be required to enclose a rectangular 50 x 100 foot lot?

2. Bob bought a tract of land that he wants to enclose with a fence. The tract is 960' by 2,200'. How much would it cost Bob to fence in this tract if the fence costs $5.10 per linear foot?

3. Lots A and B (see drawing below) have the same depth. Lot A is 1/4 acre. How many acres are in Lot B?

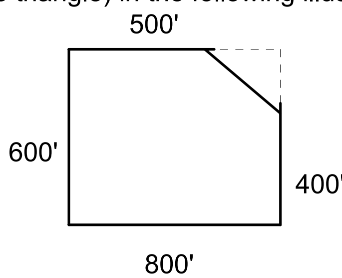


4. In a scale drawing, if 2 in. represents a length of 8 ft., what would represent a length of 20 ft.?

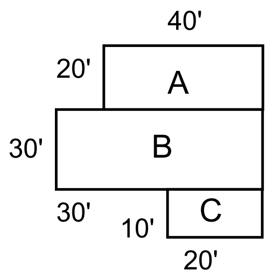
5. A backyard is drawn on a plan 6 1/2 by 3 in. If the scale is 1/2 in. = 5 ft. and sod costs $25 per square yard, how much would it cost to sod this lawn?

6. A lot is 70 x 120 ft. What fraction of an acre is this?

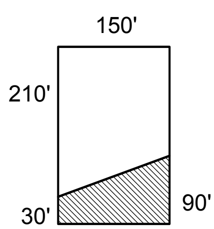
7. What is the cost of the lot (less the triangle) in the following illustration if the cost is $2.50 per sq. ft.?



8. The house with the floor area shown below sells for $300,000. What is the cost per sq. ft.?



9. A man buys the lot shown below for $48,000. To make way for a highway, the state condemns the shaded area. What would be the market value of the shaded portion, assuming a 10% increase in value?



10. A property is for sale at $240,000. If the cost of the land is $30,000 per acre and the lot is rectangular with a 500 ft. frontage, what is the depth?

11. Land in the area is valued at $40,000 per acre. What is the value of a property, which is 544.5 x 440 feet?

12. A waterfront lot is 150 feet by 200 feet. The owner has offered it for sale at $130,500. What will the cost per square foot be?

13. The cost / sq. ft. of a $42,000 lot is $4.80, the area of the lot is _______ sq. ft.

14. An undeveloped tract of land has 2,080 feet of highway frontage with a perpendicular boundary measuring 2,095 feet. The property is triangular-shaped and has been sold for $15,000 per acre. Round the tract acreage to the nearest acre and then calculate the sale price.

15. The owner of a rectangular unimproved parcel of land measuring 600 feet on the street by 145.2 feet deep is offered at $67 per front foot or $15,000 per acre. What is the amount of the higher offer?

16. A five-acre rectangular parcel is divided into six equal lots, each having a depth of 250'. The width of each lot is approximately ______________ feet.

17. In a 40'x 40' rectangular shell building, the cost of the floor was $2.25/sq.ft.; the cost of the flat roof was $4.10/sq. ft.; and the cost of the 10' high walls was $4.95/sq. ft. What was the total cost per square foot?

18. A rectangular property sold for $6,400, or $0.40 per square foot. The parcel had a depth of 200 feet. What price did the buyer pay per front foot?

19. A six foot wide sidewalk is to be constructed outside the perimeter (on the lot line) of two adjacent sides of a 60' x 100' lot. The sidewalk would contain how many sq. ft.?

20. A four-sided parcel of land has 2,640 feet on one side. At right angles to this side is a side 5,280 feet long. Parallel to the shorter side is a side of 5,280 feet. The ends of the two parallel sides of 2,640 feet and 5,280 feet are connected. What is the resulting acreage?

21. A building has dimensions of 98 x 148 feet on a one-acre parcel. The building covers approximately what fraction or percentage of an acre?

22. Compute the cost of ready-mixed concrete for a driveway 70 ft. long, 10 ft. wide, 3 inches deep at a cost of $180 per cubic yard.

23. A circular well is being dug 20 feet deep and 5 feet in diameter. How many cubic feet of dirt must be removed to construct the well?

24. The owner of a lot proposes to build an office showroom building that is 40 feet high, 30 feet wide, and 45 feet long. If the bid is $648,000, what is the cost of this building per cubic foot?

25. At $8 per cubic foot, what would be the replacement cost of a 7,000 sq. ft. warehouse with a 30 foot ceiling?

26. A 40' x 60' rectangular building that is 8' high sells for $2.65 per cubic foot. What is the price per square foot?

27. How many board feet are there in a beam 18'' x 12'' x 36'?

28. How many cubic yards of concrete are required for a footing 168' long, 18" wide, and 6"deep?

29. How many cubic feet of dirt must be excavated to dig a hole 5' long, 4' wide, and 4' deep?

30. How many cubic yards of space are there in a flat-roofed house 27' long, 18' wide, and 9' high?

31. The Williamson family has purchased a two-story house for $250,000. The house is 35 feet long and 20 feet wide and the first story is 10 feet high. The 2nd story is A-shaped with a roof 8 feet high at the tallest point. How many cubic feet of space does the house contain? What was its cost per cubic foot?

ANSWERS

1. **ANSWER:** 300 feet
   50 + 100 + 50 + 100 = 300 feet

2. **ANSWER:** $32,232 cost of fence
   960’ + 2,200’ + 960’ + 2,200’ = 6,320’
   6,320 x $5.10 = $32,232

3. **ANSWER:** 0.3125 acres
   43,560 x 1/4 = 10,890
   10,890 ÷ 120 = 90.75 depth of lot
   90.75 x 150 = 13,612.5
   13,612.5 ÷ 43,560 = 0.3125 acres

4. **ANSWER:** 5 inches
   2 inches = 8 feet; 1 inch = 4 feet
   20 feet ÷ 4 = 5 inches

5. **ANSWER:** $5,416,68
   1/2 inch = 5 feet; 1 inch = 10 feet
   6 1/2 x 10 = 65   3 x 10 = 30
   65 x 30 = 1,950 sq. ft.
   1,950 ÷ 9 = 216.667 sq. yd.
   216.667 x $25 = $5,416.68

6. **ANSWER:** Approx. 1/5 acre
   70 x120 = 8,400 sq. ft.
   8,400 ÷ 43,560 = 0.1928 = Approx. 1/5 acre

7. **ANSWER:** $1,125,000
   600 x 800 = 480,000
   1/2(300x200) = - 30,000 (triangle)
   450,000 sq. ft.
   450,000 sq. ft. x $2.50 = $1,125,000

8. **ANSWER:** $120 per sq. ft.
   A = 20 x 40 = 800 sq. ft.
   B = 30 x 50 = 1,500 sq. ft.
   C = 10 x 20 = 200 sq. ft.
   2,500 sq. ft. total
   $300,000 ÷ 2,500 = $120 per sq. ft.

9. **ANSWER:** $13,200 value of trapezoid
   240’ x 150’ = 36,000 sq. ft. (total)
   1/2(30 + 90) 150 = 9,000 sq. ft. (trapezoid)
   9,000 ÷ 36,000 = 25% area of whole
   25% x $48,000 = $12,000
   $12,000 + 10% = $13,200 value of trapezoid

10. **ANSWER:** 696.96 feet depth
    $240,000 ÷ $30,000 = 8 acres
    8 x 43,560 = 348,480 sq. ft.
    348,480 sq. ft. ÷ 500 ft. = 696.96 feet depth

11. **ANSWER:** $220,000
    544.5 x 440 = 239,580 sq. ft.
    239,580 ÷ 43,560 = 5.5 acres
    $40,000 x 5.5 = $220,000

12. **ANSWER:** $4.35
    150 x 200 = 30,000
    $130,500 ÷ 30,000 = $4.35

13. **ANSWER:** 8,750 sq. ft.
    $42,000 ÷ $4.80 = 8,750 sq. ft.

14. **ANSWER:** $750,000
    1/2 (2,080 x 2,095) = 2,178,800(area of triangle)
    2,178,800 ÷ 43,560 = 50 acres
    50 x $15,000 = $750,000

15. **ANSWER:** $40,200
    600 x $67 = $40,200 (front footage $)
    600 x 145.2 = 87,120
    87,120 ÷ 43,560 = 2 acres
    2 x $15,000 = $30,000 (acre $)

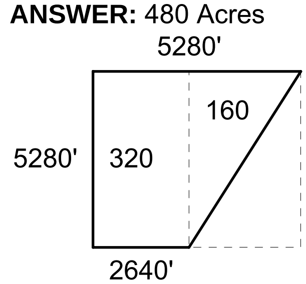
16. **ANSWER:** 145.2’
    5 x 43,560 = 217,800
    217,800 ÷ 250 = 871.2’
    871.2’ ÷ 6 lots = 145.2’

17. **ANSWER:** $11.30/sq.ft.
    40’ x 40’ = 1,600 sq. ft.
    Floor: 1,600 x 2.25 = $3,600
    Roof: 1,600 x 4.10 = $6,560
    Walls: 40’ x 10’ = 400 sq. ft.
    400 x 4 walls = 1,600
    1,600 x 4.95 = $7,920
    $3,600 + $6,560 + $7,920 = $18,080
    $18,080 ÷ 1,600 = $11.30/sq. ft.

18. **ANSWER:** $80
    6,400 ÷ 0.40 = 16,000 sq. ft.
    16,000 ÷ 200 = 80’ wide
    6,400 ÷ 80 = $80 per front foot

19. **ANSWER:** 996 sq. ft.
    100’ x 6’ = 600 sq. ft.
    60’ x 6’ = 360 sq. ft.
    6’ x 6’ = 36 sq ft Corner
    996 sq. ft.

20. **ANSWER:** 480 Acres



$1/2(b_1 + b_2)h$ = Area of Trapezoid
1/2(5280 + 2640)5280 = 20,908,800 sq. ft.
20,908,800 sq. ft. ÷ 43,560 sq. ft. = 480 Acres

21. **ANSWER:** 33.3% or 1/3
98 x 148 = 14,504
14,504 ÷ 43,560 = .333 = 33.3% or 1/3

22. **ANSWER:** $1166.58
3 inches = .25 feet
70 x 10 x .25 = 175 cubic feet
175 ÷ 27 = 6.481 cubic yards
6.481 x $180 = $1166.58

23. **ANSWER:** 392.7 cubic feet
Pi x R^2 x Depth
3.1416 x 2.5 x 2.5 x 20 = 392.7 cubic feet

24. **ANSWER:** $12 per cubic foot
40 x 30 x 45 = 54,000 cubic feet
$648,000 ÷ 54,000 = $12 per cubic foot

25. **ANSWER:** $1,680,000
7,000 sq. ft. x 30 ft = 210,000 cu. ft.
210,000 x $8 = $1,680,000

26. **ANSWER:** $21.20
40'x 60' x 8' = 19,200 cu. ft.
19,200 x $2.65 = $50,880
40' x 60' = 2,400 sq. ft.
$50,880 ÷ 2,400 = $21.20

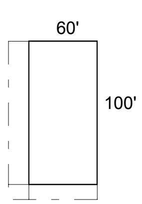
27. **ANSWER:** 648 Board Feet
36' x 12 = 432
18'' x 12'' x 432'' = 93,312 cu. in.
93,312 ÷ 144 = 648 board feet

28. **ANSWER:** 4.67 cubic yards
168' x 1.5' x .5' = 126 cu. ft.
126 ÷ 27 = 4.666 or 4.67 cu. yrds.

29. **ANSWER:** 80 cubic feet
5' x 4' x 4' = 80 cubic feet

30. **ANSWER:** 162 cubic yards
27' x 18' x 9' = 4,374 cubic feet
4,374 cu. ft. ÷ 27 = 162 cubic yards

31. **ANSWER:** 9,800 cubic feet; $25.51 per cu. ft.
35' x 20' x 10' = 7,000 cu. ft.
35' x 20' x 8' ÷ 2 = 2,800 cu. ft.
Total 9,800 cu. ft.
$250,00 ÷ 9,800 cu.ft. = $25.51 per cubic foot



Practical Math III

Finance and Prorations

For all calculations, assume 30 days in every month and 360 days in every year.

1. Find the interest on $32,000 at 12 1/4% per annum (year) for 6 months.

2. A loan is made for 90% of the $288,000 appraised value of a house. The annual rate of interest is 12%. What is the bi-monthly (every 2 months) interest payment?

3. On a simple interest loan of $15,000 that has an interest rate of 13% per annum, what is the total interest payment for 2 years, 6 months, and 10 days?

4. A property valued at $240,000 is earning an 8% return. What is the monthly return?

5. If the interest on a loan at 13% per annum for 8 months was $5,400, what was the amount of the loan?

6. If the interest for 9 months on a loan of $80,000 was $7,200, what was the rate of interest per annum?

7. A purchase-money (seller financed) mortgage carried back by the seller for $180,000 at 10 3/4% was made February 1 and paid November 1. What was the total outstanding amount due at the time of payment if interest and principal are paid in full on November 1?

8. The taxes of $1170 have been paid for the entire calendar year. The seller sells on October 1. What is the amount of the remaining prepaid portion?

9. A house is sold on May 1. On January 1 of that year the three-year insurance was paid in an amount of $1323 and the semi-annual tax of $540 was paid. How much should be debited to the buyer and credited to the seller?

10. The taxes on a house for the fiscal year July 1 to June 30 are $1,800, to be paid in advance. If the house is sold February 15, what is the amount of the prepaid portion owed back to the seller?

11. A house sold March 15. The taxes for the first six months of the year are $585 and have not been paid. How much of this does the buyer pay?

12. The seller has made the October 1 payment on his mortgage at 8 3/4%, leaving a balance of $32,400. What is the amount of accrued interest as of the closing on October 20?

13. A property was sold April 15 and the three-year insurance premium of $1,710 was paid January 1 of the preceding year. How much does the buyer owe the seller?

14. A home with a market value of $250,000 was assessed at 82% of its value. The tax rate was $4.20 per $100. Figure the tax proration through the day of closing on June 1.

15. The annual taxes on Sarah Williamson's house are $1,837.50. For a closing date of May 21, what will be the prorated amount? (The seller will pay for the day of closing).

16. After the monthly payment due on January 1 was made, $66,600 is the unpaid balance of a seller's 8% assumable mortgage. The purchaser assumed the seller's mortgage and the closing was set for January 15. Find the amount of accrued interest prorating to the day of closing.

17. After the August 1 payment was made, Susie Seller's mortgage balance was $120,853. Her monthly payment of $1,160 includes principal and interest only on a 7 3/4% per annum loan. The sale of her home is to close on August 29. What will be the seller's proration through closing?

18. The premium of $1,350 was paid in full for a one-year insurance policy that expires on May 21. The house sale is scheduled to close on February 1. Compute the amount debited the buyer and credited the seller through the day of closing.

19. The total annual premium for a $40,000 fire insurance policy is $615. This premium was paid on January 5. What will be the amount owed by the buyer if the policy is transferred to the buyer at a closing on September 5. (The earnest money contract calls for the prorations to be calculated so that the seller pays through the day of closing.)

20. The sale of Mrs. Gaston's home will close on September 28. Included in the sale is a garage apartment that is rented to Cindy Hart for $525 per month. Ms. Hart paid the security deposit of two months' rent when she leased the apartment and has paid the September rent. What is the amount owed to Cindy if she moves on the day of closing?

21. What is the amount of interest paid in a 30-year amortizing mortgage for a month in which the principal balance is $273,000 and the rate is 9 percent?

22. A $64,300 loan has interest accruing at 8.5 percent per year. It is a straight loan that will be paid off in two years, four months, and 20 days, with all accumulated interest. Prorating on a 360-day year, how much interest will accrue over this time period?

23. The Bairds know that the interest they paid out of their last month's payment was $660 and their interest rate is 9 percent. What was the balance before the payment?

24. If a mortgage of $78,000 has payments of $924.20 for 30 years, what is the total interest paid over the life of the mortgage?

25. What is 7 months and 15 days' interest on $24,000 at 14 percent?

26. If the sale price is $256,000 and the appraisal comes in low at $249,800, what is the maximum loan the borrower can get at a loan to value ratio (LTV) of 95 percent?

ANSWERS

1. **ANSWER:** $1,960 (6 months interest)
P x R x T = Interest
$32,000 x 12.25% x .5 years =$1,960 6 mo. int.

2. **ANSWER:** $5,184 interest for 2 months
$288,000 x 90% = $259,200 loan amount
$259,200 x 12% = $31,104 annual interest
$31,104 ÷ 12 = $2,592 monthly interest
$2,592 x 2 = $5,184 interest for 2 months

3. **ANSWER:** $4,929.17 interest for 2 yrs., 6 mos., and 10 days
$15,000 x 13% = $1,950 annual interest
$1,950 ÷ 360 = $5.4166 interest per day
$5.4166 x 910 days = $4,929.17 interest for 2 years, 6 months, and 10 days

4. **ANSWER:** $1600 per month
$240,000 x 8% = $19,200
$19,200 ÷ 12 = $1600 per month

5. **ANSWER:** $62,307.69
$5,400 ÷ 8 = $675 interest per month
$675 x 12 = $8,100 annual interest
I ÷ R = P
$8,100 ÷ 13% = $62,307.69

6. **ANSWER:** 12% annual interest
$7,200 ÷ 9 = $800 interest per month
$800 x 12 = $9,600 annual interest
I ÷ P = R
$9,600 ÷ $80,000 = 12% annual interest

7. **ANSWER:** $194,512.50 total due Nov. 1
$180,000 x 10.75% = $19,350 annual interest
$19,350÷ 12 = $1,612.50 interest per month
$1,612.50 x 9 = $14,512.50 9 mos. interest
$180,000 + $14,512.50 = $194,512.50 due Nov. 1

8. **ANSWER:** $292.50 remaining
time period: 3 months (Oct., Nov., Dec.)
$1170 per year ÷ 12 = $97.50 per month
$97.50 x 3 = $292.50

9. **ANSWER:** $1356
Insurance: $1323 ÷ 36 mos. = $36.75 per mo.
$36.75 x 32 mos. remaining = $1176
Taxes: $540 ÷ 6 = $90 per month taxes
$90 x 2 months remaining = $180
$1176 + $180 = $1356

10. **ANSWER:** $675 owed back to seller
$1800 ÷ 12 months = $150 per month
$150 x 4.5 months = $675

11. **ANSWER:** $341.25
$585 ÷ 6 = $97.50 per month
Buyer pays for 3 1/2 months
$97.50 x 3.5 = $341.25

12. **ANSWER:** $157.50
$32,400 x 0.0875 = $2,835
$2,835 ÷ 12 = $236.25 for the month
$236.25 ÷ 30 = $7.875 per day
The seller owes for 20 days
$7.875 x 20 = $157.50

13. **ANSWER:** $973.75 due the seller
$1710 ÷ 36 months = $47.50 per month
$47.50 x 20 1/2 months remaining = $973.75

14. **ANSWER:** $3,611.42
$250,000 x 82% = $205,000
$205,000 ÷ $100 = 2,050 x $4.20 = $8,610
J F M A M J
30 + 30 + 30 + 30 + 30 + 1 = 151
$8,610 ÷ 360 = $23.9167 x 151 = $3,611.42

15. **ANSWER:** $719.69
J F M A M
30 + 30 + 30 + 30 + 21 = 141
$1,837.50 ÷ 360 = $5.1041667
$5.1041667 x 141 = $719.69

16. **ANSWER:** $222
$66,600 x 8% = $5,328 ÷ 360 = $14.80
$14.80 x 15 = $222

17. **ANSWER:** $754.49
$120,853 x 7.75% ÷ 360 = $26.01697
$26.01697 x 29 = $754.49

18. **ANSWER:** $408.75 Debit buyer/credit seller
M A M
February 30 - 1 = 29 + 30 + 30 + 20 = 109
$1350 ÷ 360 = $3.75
$3.75 x 109 = $408.75 debit buyer/credit seller

19. **ANSWER:** $203.29
O N D J
Sept. 30 - 5 = 25 + 30 + 30 + 30 + 4 = 119
$615 ÷ 360 = $1.70833
$1.70833 x 119 = $203.29

20. **ANSWER:** $1,085
September 30 - 28 = 2
$525 ÷ 30 = $17.50
$17.50 x 2 = $ 35
<u>+ $1,050</u> (security deposit)
Total: $1,085

21. **ANSWER:** $2047.50
$273,000 x 9% = $24,570 interest
$24,570 ÷ 12 months = $2047.50 (1 month)

22. **ANSWER:** $13,056.48
$64,300 x 8.5% = $5,465.50 interest per year
$5,465.50 x 2 = $10,931 for 2 years
$5,465.50 ÷ 12 = $455.46 x 4 months = $1821.84 for 4 months
$5,465.50 ÷ 360 = $15.18 x 20 days = $303.64 for 20 days
$10,931 + $1821.84+ $303.64 = $13,056.48

23. **ANSWER:** $88,000
$660 x 12 = $7,920 interest per year
$7,920 ÷ 9% = $88,000 loan

24. **ANSWER:** $254,712 interest
30 x 12 = 360 total payments
$924.20 x 360 = $332,712 total
$332,712 - $78,000 principal = $254,712

25. **ANSWER:** $2,100
$24,000 x 14% = $3,360 interest
$3,360 ÷ 12 = $280 x 7 months = $1,960
$3,360 ÷ 360 = $9.33 x 15 days =$ 140
Total interest $2,100

26. **ANSWER:** $237,310
$249,800 value x 95% ratio = $237,310

Practical Math IV

Depreciation and Taxes

1. A $190,000 house depreciates an average of 3% each year. What is the house's value after seven years?

2. A house depreciates 2 1/2% per year for four years. If the house is now worth $198,000, what was it worth four years ago?

3. A house currently worth $153,000 was worth $180,000 five years ago. What was the average percent of depreciation per year?

4. It cost $150,000 to build a house on a $80,000 lot six years ago. If the house depreciates an average of 3% per year and the lot appreciates an average of 5% per year, what is the total value now?

5. If 3% depreciation on a $290,000 house were computed each year on remaining value, what would it be worth after five years?

6. A house purchased four years ago for $250,000 has increase in value by 10% over each year since purchase. What is the house now worth?

7. The tax assessment ratio for a house valued at $190,000 is 40%. If the tax rate is $3.50 per $1,000 of assessed value, what is the quarterly tax?

8. If a man's semi-annual tax on a $240,000 home is $486 and the tax rate is $6.75 per $1,000 of assessed value, what is the tax assessment ratio?

9. A property has a market value of $276,000. The taxes in the area are levied on 66% of market value at a rate of $2.50 per $100 of assessed value. How much tax will be charged in one year?

10. A residential property sold for $175,000. The assessed value for tax purposes is 22% of market value. What will be the amount of the tax bill if the tax rate is $6.25 per $100 of assessed value?

11. A property owner received his tax bill for $5,737.50. The tax rate is $2.25 per $100 of assessed value. What is the assessed value of this property?

12. A house is valued at $200,000 and assessed for 60% of its value. If the tax bill is $3,600, what is the rate per $100?

13. Find the tax rate per $100 of assessed value when the tax bill is $2,798.81 and the assessed value is 33% of the market value of $147,500.

14. The Johnson home has an assessed value of $168,900. The Johnsons are permitted a $10,000 exemption and will owe current annual tax based on $2.28 per $100 of valuation. What will be their tax bill?

15. An $280,000 building depreciates an average of 2% each year. What is the building's value after 9 years?

16. A house and lot are valued at $280,000. If the lot is worth $120,000 and the property is to be depreciated over 30 years, how much depreciation has been taken in 3 years?

17. Using a depreciation factor of 2.56% per year, what is the depreciated value of an industrial building that has been in service for 17 years if the original cost of the building was $856,000?

18. A home purchased 8 years ago for $175,000 has appreciated an average of 3% each year since purchase. What is the house now worth?

19. The Jones' home is valued at $175,000. Property in the area is assessed at 80% of its value and the local tax rate is $3.25 per $100. What is the amount the Jones pay in monthly taxes?

20. Jack and Jill's home is valued at $280,000. Property in the area is assessed at 70% of its value and the local tax rate is $25 per $1,000. What are Jack and Jill's annual taxes?

21. Jane bought a condo a year ago for $124,000. Property in her neighborhood is said to be increasing in value at a rate of 14% annually. What is the current value of Jane's condo?

22. A new structure would cost $144,000 and last 45 years, and the heating system would cost $10,000 and last 10 years. How much depreciation would be suffered in the first year of the structure's use?

23. A building has a total economic life of 50 years. The building is now 5 years old and has a depreciated value of $810,000. What would be the value of the building if it were new?

24. An appraiser estimates depreciation at 2.5% per year. The land is valued at $120,000 and the building is costed out at $167,000 if new. If the building is six years old, what is the total value of the property?

25. If John paid $150,000 for a rental property with a 30-year life, how much will the property depreciate each year if the land is worth $15,000?

26. You purchased a lot for $70,000 and built a house on it costing $160,000 seven years ago. If the house has depreciated at an average rate of 3.636% per year, what is the current value of the house?

27. What is the annual amount of depreciation on a $200,000 property if the building accounts for 80% of the total property value? The building is eight years old and is to be depreciated over 27.5 years.

28. A property was purchased 4 years ago for $220,000. 25% of the total value is attributed to the land. What is the current value of this property if the land depreciated an average of 2% per year and the building depreciated an average of 3.636% per year?

29. A property has a market value of $201,000. The assessment ratio used in the area is 82% of market value. The tax rate is $2.50 per $100 of assessed value. What are the annual taxes for this property?

30. If the annual tax on a property comes to $4,401, what is the assessed value of that property, given a tax rate of $1.63 per $100 of assessed value and assuming that this property is assessed at 100% of its market value?

31. A property has a market value of $348,000 in an area where a 53% assessment ratio is used. What is the annual tax bill if taxes are charged at $4.25 per $100 of assessed value?

32. A home is valued at $300,000 and assessed for 60% of its value. If the tax bill is $5,400, what is the tax rate per $100 of valuation?

33. A house appreciates by 10 percent each year over the previous year. This is equivalent to what percent for five years?

34. If the price of a house rises 10 percent the first year and 12 percent the second year, what is the percentage rise over the two years?

35. A woman's semiannual tax on her 270,000 home is $236.25 and is based on a tax assessment ratio of 50%. What is the tax rate per $1,000 for her home?

36. A $240,000 home carries fire insurance on 80% of its value. If the rate is $10.50 per $1,000 of insured value for a three-year policy, what is the annual premium?

37. A man pays $675 each year for fire and home insurance. The rate is $6 per $1,000 of insured value for a two-year period. If his house is worth $300,000, what percent of that value is covered by insurance?

ANSWERS

1. **ANSWER:** $150,100
   3% x 7 = 21%
   $190,000 - 21% = $150,100

2. **ANSWER:** $220,000
   2 1/2% x 4 = 10%
   100% - 10% = 90%
   $198,000 ÷ 90% = $220,000

3. **ANSWER:** 3% per year
   $180,000 - $153,000 = $27,000 loss
   $27,000 ÷ $180,000 = 15%
   15% ÷ 5 years = 3% per year

4. **ANSWER:** $227,000 total
   3% x 6 years = 18%
   5% x 6 years = 30%
   $150,000 - 18% = $123,000
   $80,000 + 30% = <u>$104,000</u>
   $227,000

5. **ANSWER:** $241,561.90
   $290,000 - 3% - 3% - 3% - 3% - 3%=$241,561.90

6. **ANSWER:** $366,025
   $250,000 + 10% + 10% + 10% + 10% = $366,025

7. **ANSWER:** $66.50 per quarter
   $190,000 x 40% = $76,000
   76,000 ÷ 1,000 = 76 thousands
   76 x $3.50 = $266 per year
   $266 ÷ 4 = $66.50 per quarter

8. **ANSWER:** 60%
   $486 x 2 = $972 annual tax
   $972 ÷ $6.75 = $144
   $144 x 1,000 = $144,000 assessed value
   $144,000 ÷ $240,000 = 60%

9. **ANSWER:** $4,554
   $276,000 x 66% = $182,160
   $182,160 ÷ $100 = $1,821.60
   $1,821.60 x $2.50 = $4,554

10. **ANSWER:** $2,406.25
    $175,000 x 22% = $38,500
    $38,500 ÷ $100 = $385
    $385 x $6.25 = $2,406.25

11. **ANSWER:** $255,000
    $5737.50 ÷ $2.25 = $2550
    $2550 x $100 = $255,000

12. **ANSWER:** $3
    $200,000 x 60% = $120,000
    $120,000 ÷ $100 = $1,200
    $3,600 ÷ $1200 = $3

13. **ANSWER:** $5.75 (rounded)
    $147,500 x 33% = $48,675
    $48,675 ÷ $100 = $486.75
    $2,798.81 ÷ $486.75= $5.75 (rounded)

14. **ANSWER:** $3,622.92
    $168,900 - $10,000 = $158,900
    $158,900 ÷ $100 x $2.28 = $3,622.92

15. **ANSWER:** $229,600
    9 x 2% = 18%
    $280,000 - 18% = $229,600

16. **ANSWER:** $16,000
    $280,000 - $120,000 = $160,000
    3 ÷ 30 = .1 or 10%
    $160,000 x 10% = $16,000

17. **ANSWER:** $483,468.80
    2.56% x 17 = 43.52%
    $856,000 - 43.52% = $483,468.80

18. **ANSWER:** $217,000
    3% x 8 = 24%
    $175,000 + 24% = $217,000

19. **ANSWER:** $379.17
    $175,000 x 80% = $140,000
    $140,000 ÷ $100 = 1400
    1400 x $3.25 = $4,550
    $4,550 ÷ 12 = $379.17 per month

20. **ANSWER:** $4,900
    $280,000 x 70% = $196,000
    $196,000 ÷ $1,000 = 196
    196 x $25 = $4,900

21. **ANSWER:** $141,360
    $124,000 + 14% = $141,360

22. **ANSWER:** $4,200 depreciation
    $144,000 ÷ 45 = $3,200 (building)
    $10,000 ÷ 10 = <u>$1,000</u> (heating system)
    $4,200

23. **ANSWER:** $900,000 new
    5 ÷ 50 = .1 = 10%
    $810,000 ÷ 90% = $900,000 new

24. **ANSWER:** $261,950 total value
    6 x 2.5% = 15%
    $167,000 - 15% = $141,950 Building value
    $141,950 + $120,000 = $261,950 total

25. **ANSWER:** $4,950 per year
$150,000 - $15,000 = $148,500
$148,500 ÷ 30 = $4,950 per year

26. **ANSWER:** $119,276.80
7 x 3.636% = 25.452%
$160,000 - 25.452% = $119,276.80

27. **ANSWER:** $5,818.18 annual depreciation
$200,000 x 80% = $160,000
$160,000 ÷ 27.5 = $5,818.18

28. **ANSWER:** $191,602.40 Current Prop. Value
$220,000 x 25% = $55,000 (land value)
$220,000 x 75% = $165,000 (building value)
4 x 2% = 8% (land depreciation)
4 x 3.636% = 14.544% (building depreciation)
$55,000 - 8% = $50,600 (current land value)
$165,000 - 14.544% = $141,002.40 (cur. build.)
$141,002.40 + $50,600 = $191,602.40

29. **ANSWER:** $4,120.50 Annual Taxes
$201,000 x 82% = $164,820
$164,820 ÷ $100 = 1648.20
1648.20 x $2.50 = $4,120.50 annual taxes

30. **ANSWER:** $270,000 market value
$4,401 ÷ $1.63 = 2700
2700 x $100 = $270,000

31. **ANSWER:** $7,838.70 annual tax
$348,000 x 53% = $184,440
$184,440 ÷ $100 = $1,844.40
$1,844.40 x $4.25 = $7,838.70 annual tax

32. **ANSWER:** $3 tax rate
$300,000 x 60% = $180,000
$180,000 ÷ $100 = 1800
$5,400 ÷ 1800 = $3 tax rate

33. **ANSWER:** 61%
P(1.1)x(1.1)x(1.1)x(1.1)x(1.1) = P(1.61)= 61%

34. **ANSWER:** 23.2%
1st year = 100 + (0.10 x 100) = 110
2nd year = 110 + (0.12 x 110) = 123.2
123.2 = 100 + (0.232 x 100)

35. **ANSWER:** $3.50
$236.25 x 2 = $472.50 per year
$270,000 x 50% = $135,000 Assessed Value
$135,000 ÷ $1,000 = 135
$472.50 ÷ 135 = $3.50 Tax Rate

36. **ANSWER:** $672
$240,000 x 80% = $192,000
$192,000 ÷ $1,000 = 192
$10.50 x 192 = $2,016 for 3 years
$2,016 ÷ 3 = $672 per year

37. **ANSWER:** 75%
$675 x 2 = $1350 for 2 years
$1350 ÷ $6 = 225
225 x $1,000 = $225,000
$225,000 ÷ $300,000 = 0.75 = 75%