



THE **I.T.S**

SCHOOL OF REAL ESTATE

THE CHEAT SHEET

Pass the Affiliate Brokers Exam... The 1st Time

The State Affiliate Broker exam is really two exams in one. The Test Consist of both a national portion and a state specific portion. You will take both of these exams back to back. Your must pass both, but if you pass only one section, you can take the failed portion again at a later date and still receive credit for the passed portion. The National portion of the exam is 80 questions and you have 160 minutes; the state portion of the exam is 40 questions and you have 80 minutes. A student should not underestimate the difficulty of this exam. This exam is said to a mile wide, buy only an inch thick. This means the exam covers a very wide area of knowledge without a sizeable emphasis on any one area particularly. Some areas will be tested on both exams, such as agency and disclosure. These will be tested with multiple questions on both exams. I have included the % breakdown of each section to help you focus your study time and prepare you for a realistic expectation of what you will see on the exam.

THE NATIONAL PORTION OF THE EXAM

Property Ownership: (6 Questions) 7.5% of the Exam

1. Classes of Property...

- A. Real versus Personal Property
- B. Defining Fixtures... Trade fixtures – MARIA Test
- C. Know the difference between Allodial and Feudal land ownership systems

2. Land Characteristics and Legal Descriptions

A. Physical Characteristics of Land

- 1. Immobility
- 2. Indestructibility
- 3. Non-Homogeneity

B. Economic Characteristics of Land

- 1. Relative Scarcity
- 2. Improvements
- 3. Permanence of Investment
- 4. Area Preference or SITUS

C. Types of Legal Property Descriptions

1. Metes and Bounds

- A. What are benchmark and monuments?

- 2. Sections and Townships
- 3. Lot and Block #

D. Usage of Legal Property Descriptions

- 1. Know Metes and Bounds Terms...
- 2. Know how to figure acreage on a portion of a section
- 3. Know when lot and block numbers are used

3. Encumbrances

A. Liens

1. Types – be able to define
2. Priority – know the order of payment: Governmental, secured, and unsecured
3. What is the purpose of a “lis pendens” notification?

B. Easements and Licenses

1. Dominant vs. Servient estate
2. Easement “runs with the land”
3. Adverse Possession
4. Creation of Easements

C. Encroachments

4. Types of Ownership...

A. Types of estates

1. Freehold and Leasehold

B. Forms of Ownership

1. Fee Simple Absolute
2. Fee Simple Defeasible
3. Life Estate

C. Leaseholds

1. Estate for Years
2. Estate at Will
3. Estate from Period to Period
4. Estate at Sufferance

D. Common Interest Properties

1. Distinguish between Dower and Curtesy Estates

E. Bundle of Rights

1. Possession
2. Control
3. Enjoyment
4. Disposition
5. Exclusion

5. Physical Descriptions of Property

A. Land and Building area

1. Setbacks
2. Define – Accretion, Erosion, Avulsion, Accession

B. Basic Construction Types

1. Stick built
2. Mobile
3. Modular

Land Use Controls and Regulations: (5 Questions) 6.25% of the Exam

1. Government Rights in Land

A. Property Taxes and Special Assessments

1. How pays special assessments?

B. Eminent Domain, Condemnation, and Escheat

1. KNOW!!! These terms...

C. Police Power

1. Zoning
2. Condition Use
3. Non-Conforming Use
4. Variance

2. Public Controls Based in Police Power

A. Zoning and Master Plans

B. Building Codes – Definition

C. Environmental Impact Reports – Definition

D. Regulation of special Land types... Floodplain, etc

1. Disclosure of Floodplain or special environment issues is mandatory

3. Regulation of Environmental Hazards

A. Abatement, Mitigation, and Cleanup – Define

1. What is Asbestos?

2. What is Encapsulation?
3. What is Radon?
4. What is the cause of household mold?

B. Disclose – Disclose – Disclose Environmental Hazards !!!

C. *CERCLA* and who are “*P.R.P's*”

4. Private Controls

A. Deed Conditions or Deed Restrictions

1. What's the difference?

B. Covenants and CC&R's – Define

C. HOA Regulations – Define

Valuation and Market Analysis: (8 Questions) 10% of the Exam

1. Value – Define

A. Market Value vs. Market Price

1. What's the difference?

B. Characteristics of Value

1. Demand
2. Utility
3. Scarcity
4. Transferability

C. Principles of Value

1. Highest and Best Use
2. Substitution
3. Balance
4. Conformity
5. Regression and Progression
6. Anticipation
7. Plottage

8. Increasing and Decreasing Returns

9. Competition

D. Market cycles and other factors affecting value

A. Supply vs. Demand

B. Buyers vs. sellers market

C. Factors or influences that affect both supply and demand

1. Factors that influence Demand: Population, Demographics, and Employment

2. Factors the influence Supply: Labor and Construction Cost, and governmental and finance controls

2. Methods of Estimating Value/ Appraisal Process

A. Market or Sales Comparison Approach

B. Replacement cost vs. Reproduction cost – Difference?

C. Income Approach

D. What is reconciliation?

E. What is Depreciation?

1. Is land subject to depreciations?

F. Know and be able to define the types of obsolescence

1. Functional Obsolescence

2. External Obsolescence

3. Sales Comparisons or CMA (comparable market analysis)

A. Selecting and Adjusting Comparables

B. Factors to consider in selecting comparables

C. How are a CMA and an Appraisal Different?

1. Who Conducts an Appraisal?

D. What is price per square foot?

E. Know What and How to use Gross Rent Multipliers

F. When is a Certified Appraisal Required?

Financing: (7 Questions) 8.75% of the Exam

1. General Concepts – Define these terms

- A. LTV Ratios
- B. Points
- C. Origination Fees
- D. Discounts Points
- E. Broker Commissions
- F. Mortgage Insurance or P.M.I.

1. Who is protected by PMI Insurance?

- G. Equity
- H. Qualified Buyer

2. Types of Loans

- A. Term or Straight loan
- B. Amortized or partially amortized loan
- C. Blanket or Package Loan
- D. Adjustable Rate Loans
- E. Conventional verses Insured Loans
- F. Reverse Mortgages
- G. Equity or 2nd Mortgages
- H. Subprime Loans

3. Sources of Loans

- A. Owner Financing
- B. What is the Primary Market?
- C. What is the Secondary Market?
- D. First Time Home Buyer Programs

4. Governmental Mortgage Giants

- A. FHA and VA

1. Do these groups Loan money directly?

5. Mortgages vs. Deeds of Trust

A. What is Lien Theory? What Document is used?

B. What is Title Theory? What Document is used?

C. Mortgage Clauses – Define

1. Assumption

2. Due-on-sale

3. Alienation

4. Acceleration

5. Prepayment

6. Release

6. Financing and Credit Laws

A.” *Truth in Lending*” and “*RESPA*” and “*Equal Credit Opportunity Act*”

B. Necessary Loan Disclosures

C. What is Usury?

Agency and Agency Relationships... (10 Questions) 12.5% of the Exam

1. General Concepts – Define

A. What is a General Agent?

B. What is a Special Agent?

C. What is a Designated Agent?

D. What is Dual Agency?

E. What is Designated Agency?

F. What is a Facilitator?

1. What is the Difference between a Dual Agent and a Facilitator?

a. What is a client?

b. What is a customer? Difference?

G. Can your agency status change?

H. How is Agency created with a potential buyer?

- I. Disclosure of conflicts of Interest
- 2. Creation of Agency
 - A. Implied and Ratification
- 3. Responsibilities and the “Common Law of Agency”
 - A. What are the 5 duties to a client in the Acronym COALD?
 - B. Duties to a customer?
 - C. Dual Agency – Duties to each Party?
- 4. Termination of Agency
 - A. What are the operations of law the terminate Agency?
 - B. What are the actions of the parties that can terminate an agency relationship?

Mandated Disclosures: (7 Questions) 7.5% of the Exam

- 1. Property Condition Report
 - A. This report is always to filled out by the owner, never the licensee
 - B. The licensee must always refrain from representing a client making **KNOWN** misrepresentations
- 2. Home Warranty Programs
 - A. Anytime an agent receives a commission or kickback from an extended home warranty or appliance warranty, this commission must be disclosed to the client... ALWAYS
- 3. Inspections and Verification of Owner supplied information
 - A. The Agent is expected to act in a competent and professional manner
 - B. The Agent is not expected to be a roofing, electrical expert, etc. and find all potential problems
 - C. The Agent is not responsible for a home that is sold with hidden defects
 - D. The Agent is not required to verify owner supplied information, but the agent is expected to Inquire about obvious red flags or obvious misstatements.
- 4. Non-Clients are entitled to the same disclosures or personal conflicts of interest and known material defects as a clients
- 5. All Easements and Encroachments must be disclosed
- 6. All insect, mold, or environmental issues must be disclosed to potential buyers

7. All material defects of the home must be disclosed
8. FLOODPLAIN must be disclosed + any history of flooding
9. Known Alterations or Additions that were not inspected or up to codes
10. KNOWN Material facts regarding Changes in Local Public LAWS or Land use statutes
11. School Districts must be disclosed, Airport Flight Paths
12. Local or Special Assessment Taxes
13. Stigmatized Properties... Psychologically Impacted Properties
14. Know what Megan's Law is, and where your clients can go to find relevant information

Contracts: (10 Questions) 12.5% of the Exam

1. Know General Requirements for Validity
2. Invalid Contracts – Define These
 - A. void contract
 - B. voidable contract
 - C. unenforceable contract
 1. What is the Statute of Frauds?
3. When is a contract discharged or executed?
 - A. What is an Executory contract?
4. What is Assignment?
5. What is Novation?
6. What is meant by “Breach of Contract”?
7. Define these remedies for breach
 - A. Sue for specific performance
 - B. Sue for compensatory damages
 - C. Sue for punitive damages
8. Listing Agreements
 - A. What is an Exclusive Right to Sell Listing Agreement?
 - B. What is an Exclusive Agency Agreement? Difference from above?

C. What in an Open Listing?

D. What is a NET listing?

1. Are Net Listings Legal in Tennessee?

9. What is a Buyer Agency Agreement? And when is it used?

10. Offer and Purchase Agreements

A. Do offers for real estate purchases or sales need to be in writing?

B. When is an offer binding? When can it be withdrawn?

C. When is an acceptance binding? When can it be withdrawn?

D. Counter-Offer Cancels previous Offer

E. Counter-Offer Cancels all previous Counter-Offers

F. What is a contingency?

G. All offers and Counter-Offers should be given to clients as soon as possible !

11. What is a rescission agreement?

12. What is an Option Contract?

13. What is a “first right of refusal” agreement?

Transfer of Title: (4 Questions) 5% of the Exam

1. What is Title Insurance? What does it insure against?

2. What is a title search? What is a title abstract? What is a “Chain of title”?

3. What does it mean for an estate to be intestate? Testate?

4. What is a deed? And when does title pass?

5. What are differences between the types of deeds?

A. General Warranty

B. Special Warranty

C. Quitclaim

6. What are the essential elements of a deed?

7. What does it mean to record a deed?

8. What is a HUD-1 form?

9. What does it mean to prorate an expense?

10. What is a foreclosure? Short Sale?

11. How are property taxes prorated?

The Practice of Real Estate: (12 Questions) 15% of the exam

1. Trust or Escrow Accounts

A. Purpose and Definition

B. Who is responsible for trust funds?

C. What is Commingling? What is Conversion?

D. What type of funds are to be held in a trust or escrow account?

2. Fair Housing Laws

A. What are the 7 protected classes?

B. What business practices are covered or subject to Fair Housing Laws?

C. What are Prohibited practices or FHA violations?

D. What are the exceptions or exemptions to FHA Laws?

E. Who enforces and investigates FHA Law violations?

F. KNOW Fair Housing Advertising Guidelines?

3. Advertising

A. What is "puffing"?

B. What is a Mistake?

C. What is Fraud?

4. Agent Supervision

A. What is the difference between a Principal Broker, Broker, and Affiliate Broker?

B. Does a Broker have a responsibility to train and supervise his/her affiliates?

C. What are the differences between an independent contractor and an employee?

5. What is meant by an agent being the "procuring cause"?

A. Can an agent pay a non-licensed individual a commission?

6. General Ethics...

A. What does it mean to... “Practice within your area of competence”?

B. What is the “Unlicensed Practice of Law”?

7. Technological Issues...

A. Internet Ads as signage... Disclosure responsibilities

8. Antitrust Laws

A. What is the purpose of these laws?

B. What are examples of antitrust violations in the Real Estate Professions?

Specialty Areas: (4 Questions) 5% of the Exam

1. Property Management

A. What rights do leasehold tenants have vs. Owners?

B. Review the types of Leasehold Estates

C. What is a Gross Lease? Net Lease? Percentage Lease? Graduated Lease?

2. What are Cooperative ownership properties? Condominium properties?

A. Do these owners have a deed or ownership in the form of stock certificates?

B. What are the drawbacks of owning part of a cooperative property?

C. What is Tenancy in common? Tenancy in Severalty?

3. What are the Areas or examples of Real Estate Specialties?

A. How is Income used to determine a property's value?

Real Estate Mathematics: (7 Questions) 8.75% of the Exam

The Mathematical questions found on the exam will be based upon simulations of problems or tasks a real estate professional will be asked to perform in the field, but what is often lost on the test taker is that the questions asked are merely testing the test takers ability to perform some basic mathematical equations. The test take can become lost in the interest rates, the large amount of money, the seeming complexity, and forget that all these questions can be answered with a handful of simple formulas. The test taker only needs to determine what is being asked, and work a simple formula.

The Questions will fall into these areas...

#1 Calculating the part of a whole

A broker is going to receive a 6% commission on a home he/she is selling priced at \$525,000. If the home sells for \$490,000, how much commission will the broker receive?

*First, the computation will be using the sales price, not the asking price

1st Convert the percentage to a decimal 6% is 6 divided by 100 or .06

2nd Multiply the whole (sales price) by the decimal $\$490,000 \times .06 = \$29,400$

The broker will receive a \$29,400 commission

#2 Calculating the percentage rate

A broker received a \$14,100 commission on a tract of land he/she sold. The final sales price was \$235,000. What percentage rate did the broker charge as the commission?

1st Divide the part (this is the commission amount) by the whole (this is the final sales price)

$14,100 \text{ divided by } 235,000 = .06$

2nd Convert the decimal to a percentage

$.06 \times 100 = 6\%$

The broker charged a 6% commission

#3 Calculating the whole or total amount

A broker received a \$21,000 commission after selling a home for his/her client at the agreed upon rate of 6%. What was the final sales price of the home?

1st Convert the percentage rate to a decimal

6% is 6 divided by 100 or .06

2nd Divide the part (commission in dollars) by the percentage rate (in decimal form)

\$21,000 divided by .06 = \$350,000

The final sales price was \$350,000

#4 Agent's split of Broker's commission

Bill sold a home he had listed for 85% of the listing price of \$400,000. Bill's arrangement with his broker is that Bill will be paid 80% of the commission revenue he generates. Bill's agreement with the seller was to pay a 6% commission on the final sales price. How much of the Brokers commission is paid to Bill.

1st Calculate the final sales price

Asking Price (\$400,000) x 85% (Convert this to decimal or .85) = \$340,000

2nd Calculate the Commission

The commission rate (.06) x the final sales price (\$340,000) = \$20,400

3rd Calculate the agent's portion

The commission in dollars (\$20,400) x the agent's percentage (.80 in decimal form) = \$16,320

Bill is to be paid \$16,320

#5 Loan – to – Value Ratio

A borrower is taking out a \$125,000 mortgage on a home with a final sales price of \$160,000. What is the LTV for this borrower on this home purchase?

We know the formula for LTV rate is

$$\text{LTV} = \text{part divided by whole}$$

The part is the portion financed and the whole is the final sales price. So...

$$125,000 \text{ divided by } \$160,000 = .78125$$

Convert this to a percent by multiplying by 100 to get your percentage rate.

The LTV for this borrower is 78%

#6 Interest

A lender charges 4.3% interest on a 15 year fixed rate loan. If the borrower takes out a loan for \$200,000, how much interest will the borrower pay the first year?

1st Interest rate needs to be converted to decimal

$$4.3 \text{ divided by } 100 \text{ is equal to } .043$$

2nd Interest rate in decimal form multiplied by the loan balance

$$.043 \times \$200,000 = \$8,600$$

This borrower will pay \$8,600 in interest the first year

#7 Calculating area and square footage

A two story home has a foot print of 20x38 and includes a finished basement that measures 20x20. What is the square footage of this home?

1st lets figure out what we need to know... square footage of first floor + square footage of second floor + square footage of basement

2nd Know the formula... area for a square or rectangle is length x width

3rd Work the problem

1st floor is $20 \times 38 = 760$ sqft

2nd floor is $20 \times 38 = 760$ sqft

Basement is $20 \times 20 = 400$ sqft

The total square footage is 1920

#8 Size of a lot

A potential seller has a home on a lot that is 300' wide by 800' deep. How large is this lot in acres.

1st We need to know that an acre is 43,560 sqft

2nd We need to figure the lot's square footage

$$300' \times 800' = 240,000 \text{ sqft}$$

3rd We need to convert the square footage to acreage

$$240,000 \text{ (Total Sqft) divided by } 43,560 \text{ (# of Sqft in an acre) } = 5.5094$$

This lot is approximately 5 and a half acres

THE STATE SPECIFIC PORTION OF THE EXAM

Duties and Powers of the Real Estate Commission: (4 Questions) 10% of the Exam

1. Purpose of the Real Estate Commission
 - A. How many commissioners are there?
 - B. What is the geographical breakdown of these members?
 - C. How many members have a real estate background?
2. Who can file a complaint with the Commission? What type of complaints will not be heard?
3. Complaints... Rights of the accused
 - A. Agent always has the right to hearing
4. What type of disciplinary actions can the Commission tack against a licensee?

Licensing Requirements: (4 Questions) 10% of the Exam

1. PSI Testing Requirement
2. Educational Requirements
 - A. 90 Hours for Pre-Licensing Affiliate Broker
 - B. 120 Hours for Brokers Exam
 1. Must include 30 Hrs Office-Brokerage Management
 2. This course does not count for CE Credit
3. General Licensing Requirements
 - A. High School Diploma or GED
 - B. 18 Years of Age
 - C. Disclosure of Any Criminal Infractions to Commission
 - D. 3 Years Experience for Broker's Exam
4. Change of Status
 1. Active vs. Retired
 2. Time requirement for notification of change to Commission
5. Real Estate Firm License
 - A. General Requirements
 - B. Display of Agents, Broker, and Firm License at firm location

6. Renewal of License

- A. How many years is an affiliate broker/ broker license issued for?
- B. Required Continuing Education

7. What is Errors and Omission Insurance?

- A. Who is required to carry E and O?
- B. Who is protected by this insurance?

Advertising and Marketing: (5 Questions) 12.5% of the Exam

1. Required Disclosure for and Owner/Agent Listing?

2. Required Information to be displayed on and Agent's "For Sale" signs

- A. Firm Name
- B. Firm Phone #
- C. Licensee's Name as on File with commission (no Un-registered nicknames)
- D. Licensee's Phone #

3. Brokerage or Franchise Advertising

- A. Any licensee advertising under a franchise or trade name shall clearly indicate his name, firm name, and firm telephone number.
- B. Advertising will use the words; each office is owned and operated independently
- C. These two above rules apply to all forms of advertising

4. Internet Advertising

- A. Every webpage is required to have the firm's name and phone number... on every page
- B. This includes posting sites like craigslist, etc.
- C. Web advertising is subject to all other advertising guidelines such as Owner/Agent requirements etc.
- D. IDX or MLS search engines included in private sites must include a disclaimer that explain to the user that
not all listings are listed by the firm hosting the website

Broker / Affiliate Relationships: (5 Questions) 12.5% of the Exam

1. How are Compensation/ Commissions to be paid

- A. Can a Broker pay another Broker's Affiliate?

2. Can an Affiliate Broker operate without a Principal Broker?
3. What is a Broker's Supervisory Requirements?
 - A. What is the 50 Mile Rule?
4. What is required when an affiliate changes firms?
5. Who owns the listings of a Firm; the agent who signs the listing or the broker?

Handling of Documents and Record Keeping: (6 Questions) 15% of the Exam

1. Ultimately, where does the responsibility for retention of firm records fall?
2. How long do firm records have to be kept?
 - A. What records must be kept?
 - B. Where are these records to be kept?
3. Clients are to be given copies of ALL relevant paper work?
4. The Commission has the right to demand access to these records, and does conduct regular firm audits.

Handling of Trust Escrow Funds: (4 Questions) 10% of the Exam

1. To whom can Trust/ Escrow Funds be distributed?
2. What are the general requirements for an escrow account?
 - A. Can the firm's general checking account be used?
 - B. Can personal funds be deposited into the escrow account?
3. What is commingling? Conversion?
4. When is escrow money to be deposited?
5. Can an escrow account be interest bearing? Can non-liquid valuables be used as earnest money?
6. How long can an agent/broker wait until they deposit the trust funds into an escrow account?

Improper Activities / Consumer Protection: (4 Questions) 10% of the Exam

1. What is a net listing? Is it legal in Tennessee?
2. FHA Discrimination, ADA Discrimination... KNOW THESE LAWS
3. Failure to renew license... Failure to carry E and O Insurance
 - A. TREC has the right to levy fines against licensee and their broker
 - B. TREC has the right to revoke or suspend a licensee's license

4. Education and Recovery Fund

- A. Who can make a claim?
- B. What is the maximum payout per complaint?
- C. How is this fund funded?

Agency and Disclosure Issues: (6 Questions) 15% of the Exam

- 1. General Agency Duties owed to Customers and Clients
- 2. Disclosure of Agency Status
- 3. Disclosure of material defects
- 4. Disclosure of Conflicts of Interest / Owner – Agent Status
- 5. Handling of multiple offers
- 6. What is designated agency?
- 7. What is a facilitator?
- 8. What is Dual Agency?

Special Areas of Practice: (2 Questions) 5% of the Exam

- 1. Does the sale of Timeshares require special licensing in Tennessee?
- 2. License requirements for property management?
 - A. Salaried employee who works for one owner and does not receive a commission... No License required
 - B. Agent who offers property management services to public for a fee... Must be licensed
- 3. Know that sales of Commercial and Industrial properties are still subject to licensing regulations.

