

75-Hour Broker Pre-License Midpoint Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. What is the federal income tax exclusion for gains realized from the sale of a primary residence?**
 - A. \$150,000 for singles and \$300,000 for couples**
 - B. \$250,000 for singles and \$500,000 for couples**
 - C. \$100,000 for singles and \$200,000 for couples**
 - D. \$300,000 for singles and \$600,000 for couples**
- 2. Which situation is an example of encroachment?**
 - A. A neighbor's tree shading your property**
 - B. A fence that extends over the property line**
 - C. A building constructed too close to the road**
 - D. A power line passing through your yard**
- 3. What should a broker acting as the agent of the buyer inform the buyer about?**
 - A. The seller's financial situation**
 - B. The realism of the listing price**
 - C. The property history**
 - D. The buyer's financing options**
- 4. Which of the following best defines a "short sale"?**
 - A. A transaction that requires a buyer's investment**
 - B. A situation where a property is sold for less than the mortgage amount, necessitating lender approval**
 - C. A quick price reduction to attract buyers**
 - D. A sale that occurs above market value**
- 5. Which term describes an item that was once personal property but is now attached to real estate?**
 - A. Fixture**
 - B. Easement**
 - C. Leasehold**
 - D. Appurtenance**

- 6. What law requires that finance charges be presented as an annual percentage rate?**
- A. The Real Estate Settlement Procedures Act**
 - B. The Fair Housing Act**
 - C. The Truth in Lending Act**
 - D. The Dodd-Frank Act**
- 7. The person who is the purchaser of a property using a "land contract" is known as the?**
- A. Vendee**
 - B. Vendor**
 - C. Grantee**
 - D. Grantor**
- 8. Which of the following is NOT a responsibility of a real estate broker?**
- A. Facilitating transactions for clients**
 - B. Managing agents under their supervision**
 - C. Offering legal opinions on contracts**
 - D. Ensuring compliance with regulations**
- 9. What form of ownership should an unmarried couple use if they want the deceased member's share to go to their heirs?**
- A. Joint tenancy**
 - B. Tenancy by the entirety**
 - C. Tenancy in common**
 - D. Community property**
- 10. What defines the statute of limitations in legal matters?**
- A. The time frame to enforce a contract**
 - B. The period for which a contract is valid**
 - C. The maximum amount of damages applicable**
 - D. The timeline to bring an action after an injury**

Answers

SAMPLE

- 1. B**
- 2. B**
- 3. B**
- 4. B**
- 5. A**
- 6. C**
- 7. A**
- 8. C**
- 9. C**
- 10. D**

SAMPLE

Explanations

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1. What is the federal income tax exclusion for gains realized from the sale of a primary residence?

- A. \$150,000 for singles and \$300,000 for couples**
- B. \$250,000 for singles and \$500,000 for couples**
- C. \$100,000 for singles and \$200,000 for couples**
- D. \$300,000 for singles and \$600,000 for couples**

The federal income tax exclusion for gains realized from the sale of a primary residence allows individuals and couples to exclude a significant portion of their capital gains from taxation. Specifically, single taxpayers can exclude up to \$250,000 of gain, while married couples filing jointly can exclude up to \$500,000. This exclusion is designed to provide relief for homeowners by reducing the taxable income related to the sale of their primary residence, which can be particularly beneficial given fluctuations in real estate values over time. To qualify for this exclusion, certain criteria must be met, such as ownership and use of the property as a primary residence for at least two of the five years preceding the sale. Understanding this exclusion is crucial for both real estate professionals and homeowners to make informed financial decisions during property transactions.

2. Which situation is an example of encroachment?

- A. A neighbor's tree shading your property**
- B. A fence that extends over the property line**
- C. A building constructed too close to the road**
- D. A power line passing through your yard**

Encroachment occurs when a structure, such as a fence or building, intrudes on another property's boundaries. In the given situation, a fence extending over the property line directly demonstrates this principle, as it infringes upon the legal space that belongs to the adjacent property owner. This can result in legal disputes between property owners regarding land use and ownership rights. The other scenarios do not qualify as encroachments. For instance, a neighbor's tree shading your property does not violate any property lines; it simply occurs as a natural outcome of the tree's growth. A building constructed too close to the road may violate zoning regulations or building codes, but it does not necessarily encroach on another property's boundaries. Lastly, a power line passing through your yard may involve easement rights, which are legally granted uses of land but do not constitute encroachment since they typically follow predetermined agreements. Therefore, the correct answer effectively illustrates the definition of encroachment as it involves a physical structure intruding onto another's property.

3. What should a broker acting as the agent of the buyer inform the buyer about?

- A. The seller's financial situation**
- B. The realism of the listing price**
- C. The property history**
- D. The buyer's financing options**

In a real estate transaction, when a broker represents the interests of the buyer, it is crucial for them to inform the buyer about the realism of the listing price. Understanding the listing price is vital for the buyer to make informed decisions and negotiate effectively. The broker has the responsibility to provide market analysis, including comparable sales, to help the buyer assess whether the listing price is fair and reflective of the market conditions. When a broker evaluates the realism of the listing price, they consider various factors such as local market trends, property condition, and recent sales of similar properties. This information enables the buyer to gauge if the property is overpriced or a good deal, which is essential during negotiations and final decision-making. While the other options might hold some relevance in certain contexts, they do not specifically pertain to the broker's obligation in informing the buyer regarding the key aspects of pricing strategy that can significantly influence the buyer's offer and overall purchasing strategy. Understanding pricing is foundational to successful bidding and securing favorable terms in any real estate transaction.

4. Which of the following best defines a "short sale"?

- A. A transaction that requires a buyer's investment**
- B. A situation where a property is sold for less than the mortgage amount, necessitating lender approval**
- C. A quick price reduction to attract buyers**
- D. A sale that occurs above market value**

A "short sale" specifically refers to a real estate transaction in which a homeowner sells their property for less than what is owed on the mortgage. In this scenario, the homeowner is typically unable to continue making mortgage payments and seeks to avoid foreclosure. The lender must approve the sale since they will not receive the full amount of the loan from the proceeds of the sale. This process allows the borrower to manage their financial situation more effectively and can also be beneficial for the lender, as it may help them recoup more money than they would in a foreclosure situation. The other options do not accurately define a short sale. A buyer's investment does not necessarily characterize a short sale; all real estate transactions involve some form of buyer investment. A quick price reduction might attract buyers, but it does not encapsulate the essence of a short sale. Additionally, a sale above market value contradicts the definition of a short sale, where the sale price is intentionally lower due to financial distress. Understanding these distinctions helps clarify the nature and context of short sales in real estate.

5. Which term describes an item that was once personal property but is now attached to real estate?

A. Fixture

B. Easement

C. Leasehold

D. Appurtenance

The term that describes an item that was once personal property but is now attached to real estate is a fixture. Fixtures refer to items that have been permanently affixed to a property, meaning they can no longer be removed without causing damage to the structure. Examples include built-in appliances, chandeliers, or bathtubs that were originally personal property but have become part of the real estate. Understanding the concept of fixtures is crucial in real estate transactions, as it influences what is included in the sale of a property. Buyers and sellers need to be clear about which items are considered fixtures to avoid disputes later. Fixtures differ from personal property, which is not attached and can be removed without affecting the real estate. The other choices relate to different concepts in real estate: an easement refers to a right to cross or use someone else's land for a specified purpose; a leasehold represents a tenant's interest in rental property; and an appurtenance is a right or privilege that comes with the property but does not necessarily relate to the attachment of personal property. Understanding these distinctions helps clarify the complexity of real estate ownership and rights.

6. What law requires that finance charges be presented as an annual percentage rate?

A. The Real Estate Settlement Procedures Act

B. The Fair Housing Act

C. The Truth in Lending Act

D. The Dodd-Frank Act

The requirement for finance charges to be expressed as an annual percentage rate (APR) falls under the Truth in Lending Act. This law was enacted to promote informed use of consumer credit by requiring clear and standardized disclosures regarding the terms and costs associated with credit. By mandating that finance charges be presented as an APR, the Truth in Lending Act allows consumers to easily compare the cost of borrowing from different lenders, as the APR provides a comprehensive measure of the cost of credit expressed annually, including interest rates and certain fees. In the context of real estate transactions and other lending scenarios, this transparency helps consumers make more informed decisions. It also protects consumers from misleading lending practices that may occur if costs were not clearly disclosed. Other laws mentioned, such as the Real Estate Settlement Procedures Act and the Fair Housing Act, serve different purposes and focus on areas like settlement procedures and non-discrimination in housing, respectively. The Dodd-Frank Act, while it introduced additional consumer protection measures and reforms in the financial sector following the 2008 financial crisis, does not specifically mandate the presentation of finance charges as an APR.

7. The person who is the purchaser of a property using a "land contract" is known as the?

- A. Vendee**
- B. Vendor**
- C. Grantee**
- D. Grantor**

In real estate transactions involving a land contract, the purchaser is known as the vendee. A land contract is a type of seller financing where the buyer makes payments directly to the seller over time, and ownership of the property transfers only when the contract is fully paid off. The vendee, therefore, is the party that is acquiring the property under the terms of this agreement. In this context, the vendor is the seller of the property, which distinguishes them from the vendee. Similarly, the terms grantee and grantor refer to the parties involved in a different type of transaction, typically a deed transfer. The grantee is the buyer who receives the property, while the grantor is the seller who conveys the property to the grantee. These terms do not apply to the specific arrangement and roles delineated in a land contract, making "vendee" the correct term for the purchaser in this scenario.

8. Which of the following is NOT a responsibility of a real estate broker?

- A. Facilitating transactions for clients**
- B. Managing agents under their supervision**
- C. Offering legal opinions on contracts**
- D. Ensuring compliance with regulations**

A real estate broker has a wide range of responsibilities that include facilitating transactions for clients, managing agents, and ensuring compliance with regulations. However, offering legal opinions on contracts is not within the scope of a broker's responsibilities unless they are also a licensed attorney. Brokers are expected to guide their clients through transactions, understanding and interpreting contracts, but they cannot provide legal advice unless they hold a legal license. This distinction is crucial because providing legal opinions entails responsibilities and liabilities that fall under the practice of law, which is regulated separately from real estate brokerage. Therefore, the answer highlighting that offering legal opinions on contracts is NOT a responsibility of a broker is accurate, as that role is specifically reserved for licensed attorneys.

9. What form of ownership should an unmarried couple use if they want the deceased member's share to go to their heirs?

- A. Joint tenancy**
- B. Tenancy by the entirety**
- C. Tenancy in common**
- D. Community property**

The correct form of ownership for an unmarried couple who wishes for the deceased member's share to pass to their heirs is tenancy in common. This type of ownership allows each party to own a distinct share of the property, and importantly, when one owner dies, their share does not automatically transfer to the surviving owner, but instead goes to their heirs as dictated by their will or state inheritance laws. In contrast, joint tenancy includes a right of survivorship, meaning that upon the death of one owner, their share automatically transfers to the surviving owner, which would not allow the deceased member's share to go to their heirs. Tenancy by the entirety is a form of joint ownership available only to married couples, hence it is not applicable to an unmarried couple. Community property is also specific to married couples and involves shared ownership of assets acquired during the marriage, which does not recognize individual heirs' rights in the same manner as tenancy in common. Therefore, tenancy in common is the most suitable choice for an unmarried couple intending for their shares to go to their respective heirs upon death.

10. What defines the statute of limitations in legal matters?

- A. The time frame to enforce a contract**
- B. The period for which a contract is valid**
- C. The maximum amount of damages applicable**
- D. The timeline to bring an action after an injury**

The statute of limitations refers specifically to the timeline within which a party must initiate legal action after an injury or when a legal right is violated. This timeframe varies depending on the type of claim or injury involved and is designed to ensure timely resolution of disputes and promote fairness. If a party fails to bring their claim within this designated period, they may lose their right to seek remedies in court, as the case is considered "time-barred." Understanding the statute of limitations is crucial, because it helps individuals and businesses know their rights and the deadlines they must adhere to when pursuing legal action. This concept is applicable in various legal areas, including torts, contracts, and criminal law, where each category may have distinct limitations periods.