

HAWAII PRE- LICENSING NATIONAL PRACTICE EXAM (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. When a buyer assumes a loan while purchasing a property, what remains unchanged concerning the seller's obligations?**
 - A. The seller's rights under the mortgage
 - B. The seller's obligations under the existing mortgage
 - C. The buyer's liability for the mortgage
 - D. The terms of the mortgage agreement
- 2. What is the term used for a property that is encumbered by a debt?**
 - A. Mortgage
 - B. Liability
 - C. Lien
 - D. Leverage
- 3. Which of the following is a component of a valid contract?**
 - A. Competent parties
 - B. Written in legal jargon
 - C. Notarization by a public notary
 - D. Agreement from the public
- 4. Which of the following refers to an appraiser's designation by the appraisers society?**
 - A. Accredited Residential Appraiser (ARA)
 - B. Certified Residential Appraiser (CRA)
 - C. Member Appraisal Institute (MAI)
 - D. Licensed Appraiser (LA)
- 5. What is the management fee percentage for the first \$200,000 of annual gross collected rent?**
 - A. 5%
 - B. 6%
 - C. 7%
 - D. 8%

- 6. How does a leasehold estate differ from a fee simple estate?**
- A. A leasehold grants temporary use; a fee simple is full ownership
 - B. A leasehold is indefinite; a fee simple is temporary
 - C. A fee simple is for commercial properties; a leasehold is residential
 - D. A leasehold involves shared ownership; fee simple does not
- 7. What is a short sale?**
- A. Selling a property for more than the amount owed on the mortgage
 - B. Selling a property for less than the amount owed on the mortgage, with lender approval
 - C. Foreclosing on a property
 - D. Transferring ownership to a new buyer without a sale
- 8. If homeowners inform their salesperson about a leaky garage roof but ask them not to disclose it to potential buyers, what must the salesperson do?**
- A. Ignore the sellers' request
 - B. Advise the sellers of their obligation to disclose
 - C. Let the buyers decide on their own
 - D. Disclose the issue only if asked
- 9. Which metric is critical for assessing a property's financial performance in property management?**
- A. Gross lease
 - B. Net operating income
 - C. Market value
 - D. Cash-on-cash return
- 10. What is a 1031 exchange?**
- A. A tax-deferred exchange that allows investors to swap one investment property for another.
 - B. A government program designed for first-time homebuyers.
 - C. A loan program that provides funds for property improvement.
 - D. An agreement between buyers and sellers for property transfers.

Answers

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

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Explanations

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1. When a buyer assumes a loan while purchasing a property, what remains unchanged concerning the seller's obligations?

- A. The seller's rights under the mortgage
- B. The seller's obligations under the existing mortgage**
- C. The buyer's liability for the mortgage
- D. The terms of the mortgage agreement

When a buyer assumes a loan in a property purchase, the seller's obligations under the existing mortgage remain unchanged because the original mortgage agreement is still in effect and the seller has not been released from their responsibilities to the lender. This means that even though the buyer takes over the payments and assumes the loan, the seller is still liable to the lender if the buyer fails to make those payments or defaults on the loan. The seller's obligations pertain to the original agreement made with the lender and remain intact unless the lender specifically agrees to release the seller from those obligations or issues a novation. Therefore, the seller remains responsible for the debt until it is paid in full or the lender agrees to some form of release. The other options point to aspects that may not remain the same or are not relevant in this context. For instance, the seller's rights under the mortgage may still be intact, but they do not directly relate to the obligations that persist once the buyer assumes the loan. The buyer's liability for the mortgage changes upon assumption, as they take on the responsibility for the loan going forward. Lastly, although the terms of the mortgage agreement may stay the same, they are not what remains unchanged regarding the seller's obligations specifically. Understanding these dynamics

2. What is the term used for a property that is encumbered by a debt?

- A. Mortgage
- B. Liability
- C. Lien**
- D. Leverage

The term used for a property that is encumbered by a debt is "lien." A lien represents a legal claim or right against a property, typically used as security for a debt. When a property is encumbered, it means that there is a legal obligation associated with it—often financial—where a creditor has a claim against the property until the debt is satisfied. This can occur through various forms, such as mortgages or other secured loans, where the lender has a lien on the property. In this context, while a mortgage is a common type of lien specifically related to property financing, and liability refers to the overall obligation or debt owed, the broader term that encompasses any claim against the property regardless of the type of debt is "lien." Leverage, on the other hand, refers to the use of borrowed capital to increase the potential return of an investment and doesn't accurately describe the nature of the encumbrance on the property itself. Thus, "lien" is the precise term that captures the essence of a property burdened by debt.

3. Which of the following is a component of a valid contract?

- A. Competent parties
- B. Written in legal jargon
- C. Notarization by a public notary
- D. Agreement from the public

A valid contract must have certain essential components for it to be enforceable by law. One of those components is the requirement of competent parties. This means that all parties entering into the contract must have the legal capacity to do so. Typically, this encompasses being of legal age, sound mind, and not being under any duress or undue influence. Competent parties ensure that those involved understand the nature of the contract and can make informed decisions. If one of the parties is deemed incompetent, the contract may be considered void or voidable. Other components of a valid contract include mutual agreement (offer and acceptance), consideration (something of value exchanged), and a lawful purpose. While requirements such as the notation of public notaries or the use of complex legal jargon might add credibility or clarity to certain agreements, they are not essential for all contracts. Similarly, public agreement is not a requisite condition for a valid contract, as contracts are typically private agreements between specific parties.

4. Which of the following refers to an appraiser's designation by the appraisers society?

- A. Accredited Residential Appraiser (ARA)
- B. Certified Residential Appraiser (CRA)
- C. Member Appraisal Institute (MAI)
- D. Licensed Appraiser (LA)

The designation of a Member Appraisal Institute (MAI) signifies a level of professional achievement recognized by the Appraisal Institute, a prestigious organization in the field of real estate appraisal. This designation is awarded to individuals who have demonstrated a high level of competency through education, extensive experience, and adherence to professional ethics and standards. The MAI designation is particularly valued for its rigorous standard of knowledge in appraising commercial and income-producing properties. In contrast, the other designations, while important in their own right, do not carry the same level of recognition within the industry as the MAI when it comes to qualifications for complex appraisal tasks and leadership within the appraisal profession. The Accredited Residential Appraiser (ARA), Certified Residential Appraiser (CRA), and Licensed Appraiser (LA) designations focus on different aspects and scopes of appraisal work but do not carry the same weight as the MAI for comprehensive appraisal expertise.

5. What is the management fee percentage for the first \$200,000 of annual gross collected rent?

- A. 5%
- B. 6%
- C. 7%**
- D. 8%

The management fee percentage for the first \$200,000 of annual gross collected rent is typically set at 7%. This figure is standard in many property management agreements and reflects the costs associated with managing a property effectively. The fee structure is designed to compensate property management companies for their services, which often include tenant screening, rental collection, property maintenance oversight, and financial reporting. Using a percentage system allows property owners to allocate a reasonable proportion of their rental income toward management costs, which is essential for maintaining the property's condition and ensuring tenant satisfaction. The selection of 7% as the management fee aligns with common industry practices, making it a reliable figure for budgeting and financial planning for property owners. Other percentages like 5%, 6%, and 8% may vary depending on the specific management company, the property type, or local market conditions, but the 7% is widely recognized as a standard fee for the first tier of gross collected rent in many regions.

6. How does a leasehold estate differ from a fee simple estate?

- A. A leasehold grants temporary use; a fee simple is full ownership**
- B. A leasehold is indefinite; a fee simple is temporary
- C. A fee simple is for commercial properties; a leasehold is residential
- D. A leasehold involves shared ownership; fee simple does not

A leasehold estate differs from a fee simple estate primarily in terms of ownership and duration. A leasehold estate grants the tenant temporary use of the property, for a specific period as defined in the lease agreement, typically ranging from a few months to several decades. In contrast, a fee simple estate represents full ownership of the property, allowing the owner to use, sell, or transfer the property without time limitations. This distinction is fundamental in real estate as it affects the rights and responsibilities of each party involved. The leaseholder knows they have control over the property only for the specified duration of the lease, while the fee simple owner has endless rights to the property until they decide to sell or otherwise dispose of it. This difference in rights and the nature of ownership is key to understanding property law and the various forms of real estate ownership. The other options do not accurately reflect the essential differences in ownership and rights related to leasehold and fee simple estates. For example, the idea that a leasehold is indefinite is incorrect, as leaseholds are specifically defined by their duration. Additionally, fee simple estates are not exclusive to commercial properties, nor do they involve shared ownership in the way that might be suggested.

7. What is a short sale?

- A. Selling a property for more than the amount owed on the mortgage
- B. Selling a property for less than the amount owed on the mortgage, with lender approval**
- C. Foreclosing on a property
- D. Transferring ownership to a new buyer without a sale

A short sale refers to the situation where a property is sold for less than the amount owed on the mortgage, and this transaction requires approval from the lender. In a short sale, the homeowner is typically facing financial hardship and is unable to keep up with mortgage payments. By selling the property for less than the mortgage amount, the homeowner seeks to avoid foreclosure. The lender agrees to the short sale because it represents an opportunity for them to recoup a portion of the outstanding loan amount, which is usually preferable to the lengthy and costly process of foreclosure. In these cases, the sale proceeds go directly to the lender to mitigate their losses on the mortgage. The other choices do not accurately represent a short sale. Selling a property for more than the amount owed on the mortgage describes a traditional sale. Foreclosing on a property is a legal process initiated by the lender to recover the owed amount, whereas a short sale is a cooperative sale between the owner and the lender. Transferring ownership without a sale does not involve the financial dynamics of a mortgage and would not constitute a short sale either.

8. If homeowners inform their salesperson about a leaky garage roof but ask them not to disclose it to potential buyers, what must the salesperson do?

- A. Ignore the sellers' request
- B. Advise the sellers of their obligation to disclose**
- C. Let the buyers decide on their own
- D. Disclose the issue only if asked

The correct choice emphasizes the salesperson's responsibility to inform their clients about legal obligations regarding property disclosures. When homeowners disclose a known defect, such as a leaky garage roof, to their salesperson, the salesperson must inform the homeowners that they are legally required to disclose this defect to potential buyers, regardless of the homeowners' wishes. Real estate professionals are typically bound by laws and ethical guidelines that mandate transparency about property conditions. Failing to disclose such known issues can not only lead to legal consequences for the homeowners but also could expose the salesperson and their brokerage to liability for misrepresentation. In many jurisdictions, sellers have a duty to disclose defects that they know about, and salespersons play a crucial role in ensuring that sellers are aware of these responsibilities. This ensures the integrity of the transaction and protects all parties involved, including the future buyers who deserve full knowledge of conditions affecting the property. Thus, the salesperson's obligation to advise the sellers of their duty to disclose is not just a matter of professional ethics but also a legal requirement in many cases.

9. Which metric is critical for assessing a property's financial performance in property management?

- A. Gross lease
- B. Net operating income**
- C. Market value
- D. Cash-on-cash return

Net operating income (NOI) is a critical metric for assessing a property's financial performance because it provides a clear picture of the property's revenue-generating ability after accounting for operating expenses. It is calculated as the total income from the property (like rental income) minus the total operating expenses (such as property management fees, maintenance costs, and property taxes), excluding mortgage payments and capital expenditures. By focusing on the income generated from the property alone, NOI helps property managers and investors understand the property's profitability, efficiency, and operational effectiveness. In property management, a positive NOI is indicative of successful management practices and healthy property performance, serving as a benchmark for evaluating potential investments or existing properties. This metric is also essential for financial analysis, enabling property managers to assess whether rental prices are appropriate and if operational costs are in line with industry standards. While other choices play important roles in real estate finance, they do not directly measure operational performance in the same way. For instance, gross lease refers to a type of lease agreement where the landlord covers all operating expenses, and market value relates to how much a property could sell for in the current market but does not directly indicate the income or expense dynamics of a property. Cash-on-cash return is important for investors as it measures

10. What is a 1031 exchange?

- A. A tax-deferred exchange that allows investors to swap one investment property for another.**
- B. A government program designed for first-time homebuyers.
- C. A loan program that provides funds for property improvement.
- D. An agreement between buyers and sellers for property transfers.

A 1031 exchange refers to a specific provision under section 1031 of the Internal Revenue Code that allows property owners to defer capital gains taxes on the sale of an investment property when they reinvest the proceeds into a similar property of equal or greater value. This process, often referred to as a like-kind exchange, enables investors to avoid immediate tax liability, thus preserving their capital for further investment. By participating in a 1031 exchange, investors can strategically manage their portfolios and facilitate wealth building through real estate, as the deferral of taxes allows for the accumulation and reinvestment of funds over time. This financial strategy is particularly beneficial for those focused on long-term investment in real estate, as it can lead to increased cash flow and higher overall returns. The other options describe unrelated concepts in real estate finance and investment, such as programs supporting first-time homebuyers or funding for property improvement, which do not address the tax implications and investment strategies central to a 1031 exchange.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://hawaii-prelicensing.examzify.com>

We wish you the very best on your exam journey. You've got this!

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