

Indiana Real Estate Commission Statutes and Rules Practice Test (Sample)

Study Guide



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SAMPLE

Questions

- 1. Which of the following actions can lead to a disciplinary action by the Commission?**
 - A. Taking holidays during license renewal**
 - B. Refusal to accept recommendations**
 - C. Conviction of a felony**
 - D. Only receiving complaints**
- 2. What authority does the licensing agency have concerning a managing broker's trust account?**
 - A. The agency must approve all transactions.**
 - B. The agency may inspect the broker's records at any time.**
 - C. The agency can mandate the account balance.**
 - D. The agency handles all financial disputes.**
- 3. Which action is prohibited for a broker in Indiana?**
 - A. Conducting business under the name of their managing broker.**
 - B. Maintaining their own escrow account.**
 - C. Advertising through the firm's established channels.**
 - D. Networking with other licensed brokers.**
- 4. If a neighbor asks Broker Benny how to escape their current listing with another broker, what should he do?**
 - A. Inform them directly how to exit their contract**
 - B. Explain that he cannot discuss their current situation unless it's in writing**
 - C. Advise them to ignore the current contract**
 - D. Encourage them to switch brokers without formalities**
- 5. How must real estate contracts be executed to be enforceable in Indiana?**
 - A. They must be verbally agreed upon**
 - B. They must be witnessed by a third party**
 - C. They must be in writing and signed by involved parties**
 - D. They can be informal and still be enforceable**

- 6. Which of the following is NOT considered 'incompetent practice'?**
- A. Guaranteeing a prospective buyer property value increase**
 - B. Informing a seller of a buyer's nationality**
 - C. Receiving commissions from both parties in a disclosed limited agency**
 - D. Having a secretary distribute company literature improperly**
- 7. What happens to funds in the Recovery Fund that exceed a certain threshold at the end of the State's fiscal year?**
- A. They are allocated to state project funding**
 - B. They go to the State's general fund**
 - C. They are returned to property owners**
 - D. They are invested back into the real estate market**
- 8. What is the minimum number of continuing education hours required for real estate licensees during each renewal period?**
- A. 24 hours**
 - B. 36 hours**
 - C. 48 hours**
 - D. 60 hours**
- 9. What action must a seller take if a buyer has not received a 'Residential Real Estate Sales Disclosure Form'?**
- A. Provide the disclosure form to the buyer**
 - B. Wait until the buyer requests it**
 - C. Cancel the contract**
 - D. Refuse to provide it**
- 10. Which statement is true regarding 'net' listings in the State of Indiana?**
- A. They require a minimum commission amount.**
 - B. They must show a maximum amount of commission.**
 - C. They can be verbal agreements.**
 - D. They are prohibited by state law.**

Answers

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

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Explanations

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1. Which of the following actions can lead to a disciplinary action by the Commission?

- A. Taking holidays during license renewal**
- B. Refusal to accept recommendations**
- C. Conviction of a felony**
- D. Only receiving complaints**

Conviction of a felony can lead to disciplinary action by the Commission because it reflects a serious breach of ethical standards and legal guidelines that govern real estate practices. Such a conviction can undermine public trust in the individual's ability to conduct real estate activities honestly and responsibly. The Indiana Real Estate Commission aims to protect the public and maintain the integrity of the real estate profession, and a felony conviction can indicate a failure to adhere to legal and ethical norms. Therefore, the Commission has the authority to impose penalties, which may include suspension or revocation of a real estate license, to uphold these standards within the industry. Other actions, such as taking holidays during license renewal or refusing to accept recommendations, generally do not directly compromise the professional conduct expected in real estate practices. Similarly, simply receiving complaints without further context does not inherently indicate any misconduct by the licensee.

2. What authority does the licensing agency have concerning a managing broker's trust account?

- A. The agency must approve all transactions.**
- B. The agency may inspect the broker's records at any time.**
- C. The agency can mandate the account balance.**
- D. The agency handles all financial disputes.**

The authority of the licensing agency to inspect a managing broker's trust accounts, as indicated in the correct answer, highlights the importance of transparency and compliance in real estate transactions. Trust accounts are crucial for holding client funds, and the regulatory body is tasked with ensuring that these funds are managed in accordance with the established laws and regulations of Indiana. By having the ability to inspect the broker's records at any time, the agency is able to verify that the funds are handled properly, ensuring protection for clients and maintaining the integrity of the real estate profession. This power to inspect also allows the agency to ensure compliance with other laws regarding the handling of client money, contributing to a fair and lawful real estate market. Other options do not align with the typical authority of a licensing agency. For instance, the agency does not typically approve every transaction, as this could impede the operational efficiency of licensed brokers. Similarly, while the agency can recommend maintaining a reasonable balance, it does not enforce a specific mandated account balance. Lastly, the agency does not resolve financial disputes directly; rather, it oversees compliance and may take action against brokers who fail to manage their trust accounts properly but does not serve as a mediator in disputes.

3. Which action is prohibited for a broker in Indiana?

- A. Conducting business under the name of their managing broker.
- B. Maintaining their own escrow account.**
- C. Advertising through the firm's established channels.
- D. Networking with other licensed brokers.

In Indiana, a broker is prohibited from maintaining their own escrow account because escrow accounts are designated for holding client funds and must be maintained in compliance with specific regulations set forth by the Indiana Real Estate Commission. Brokers are required to use their managing broker's established escrow account for handling client funds. This ensures proper oversight and compliance with the fiduciary responsibilities to clients and helps prevent misuse of funds. The regulation is designed to provide protection and transparency within real estate transactions. By centralizing escrow accounts under the managing broker, it minimizes the risk of mismanagement or mishandling of client funds, which can lead to significant legal issues and risks both for clients and brokers alike. The other options presented, such as conducting business under the name of their managing broker, advertising through established channels, and networking with other licensed brokers, are generally permissible and even encouraged practices that contribute to a brokerage's operational success and compliance with industry standards.

4. If a neighbor asks Broker Benny how to escape their current listing with another broker, what should he do?

- A. Inform them directly how to exit their contract
- B. Explain that he cannot discuss their current situation unless it's in writing**
- C. Advise them to ignore the current contract
- D. Encourage them to switch brokers without formalities

When a neighbor asks Broker Benny how to escape their current listing with another broker, the appropriate response is to explain that he cannot discuss their current situation unless it's in writing. This is important for several reasons. First, it maintains professional integrity and respect for the existing contractual relationships. Engaging in discussions about another broker's client without proper consent could be seen as unethical or a breach of the rules set forth by the Indiana Real Estate Commission. Broker Benny must prioritize ethical conduct and avoid any actions that may be perceived as wooing clients away from their existing agreements. Second, requiring a written request safeguards Broker Benny against any claims of interference with the contractual obligations of the neighbor and their current broker. It establishes a clear boundary, ensuring that any advice or information he provides is appropriate and is in compliance with real estate laws and regulations. Third, discussing how to exit a contract is delicate territory that can have legal implications. By insisting on a written form of communication, Broker Benny helps ensure that all parties are informed and that the neighbor receives accurate and legally sound information regarding their options. This reduces the risk of misunderstandings or disputes that could arise from informal verbal exchanges. In summary, Broker Benny's choice to seek written communication before discussing the neighbor's current contract

5. How must real estate contracts be executed to be enforceable in Indiana?

- A. They must be verbally agreed upon**
- B. They must be witnessed by a third party**
- C. They must be in writing and signed by involved parties**
- D. They can be informal and still be enforceable**

Real estate contracts in Indiana must be in writing and signed by the parties involved to be enforceable. This requirement is rooted in the Statute of Frauds, which aims to prevent fraudulent claims and misunderstandings regarding property transactions. A written contract provides clear evidence of the terms agreed upon and the intent of the parties, which is essential for legal enforcement. By requiring signatures from all parties, the law ensures that each party has explicitly agreed to the terms and conditions stated in the contract, thereby providing a reliable framework for resolving any disputes that may arise. Other methods of agreement, such as verbal contracts or informal arrangements, lack the necessary formality and clarity that written contracts provide, making them less secure and potentially unenforceable in legal contexts. Additionally, the presence of witnesses is not a standard requirement for real estate contracts in Indiana, further emphasizing the importance of a written and signed document. This formal approach safeguards the interests of all parties involved in real estate transactions.

6. Which of the following is NOT considered 'incompetent practice'?

- A. Guaranteeing a prospective buyer property value increase**
- B. Informing a seller of a buyer's nationality**
- C. Receiving commissions from both parties in a disclosed limited agency**
- D. Having a secretary distribute company literature improperly**

Receiving commissions from both parties in a disclosed limited agency is not considered 'incompetent practice' because this action is permissible under Indiana real estate regulations as long as the agency relationship is adequately disclosed and both parties are informed of the arrangement. In a disclosed limited agency, the agent represents both the seller and the buyer but must maintain transparency about their fiduciary responsibilities and ensure that both clients consent to the dual representation and the potential for dual compensation. This compliance with disclosure requirements is essential, as it upholds ethical standards and protects the interests of all parties involved. Therefore, this practice is aligned with professional conduct and does not constitute incompetence. In contrast, the other choices involve actions that could potentially mislead clients or violate ethical standards, thus fitting the definition of incompetent practice.

7. What happens to funds in the Recovery Fund that exceed a certain threshold at the end of the State's fiscal year?

A. They are allocated to state project funding

B. They go to the State's general fund

C. They are returned to property owners

D. They are invested back into the real estate market

When funds in the Recovery Fund exceed a certain threshold at the end of the State's fiscal year, they are designated to go to the State's general fund. This process is intended to manage excess funds efficiently and ensure that they contribute to the overall fiscal stability of the state. The Recovery Fund is typically established to provide financial compensation to individuals who suffer monetary losses due to the actions of licensed real estate professionals. If the reserve in this fund surpasses the established threshold, transferring those excess funds to the general fund allows the state to utilize those resources for various public needs and projects, promoting broader economic and social benefits. In contrast, other options do not align with the established practices regarding the treatment of excess funds in such recovery funds. Allocating funds to state project funding or investing back into the real estate market might run contrary to the intended purpose of the Recovery Fund, which is to ensure consumer protection. Similarly, returning funds to property owners is not a typical procedure involved in managing surplus amounts in such regulatory funds.

8. What is the minimum number of continuing education hours required for real estate licensees during each renewal period?

A. 24 hours

B. 36 hours

C. 48 hours

D. 60 hours

In Indiana, real estate licensees are required to complete a minimum of 36 hours of continuing education during each renewal period. This requirement ensures that professionals in the real estate industry stay updated on current laws, practices, and trends, maintaining their competence and professional standards. Ongoing education is crucial in this field, as it helps licensees adapt to changes in legislation, enhances their skills, and improves their overall service to clients. Meeting this 36-hour requirement is a key part of the renewal process, allowing licensees to retain their ability to practice legally and effectively in the state. Therefore, the choice indicating 36 hours reflects the established continuing education standard set by the Indiana Real Estate Commission, ensuring that real estate professionals remain knowledgeable and capable in a constantly evolving industry.

9. What action must a seller take if a buyer has not received a 'Residential Real Estate Sales Disclosure Form'?

A. Provide the disclosure form to the buyer

B. Wait until the buyer requests it

C. Cancel the contract

D. Refuse to provide it

The correct action for a seller when a buyer has not received a 'Residential Real Estate Sales Disclosure Form' is to provide the disclosure form to the buyer. In Indiana, the law mandates that sellers of residential real estate must furnish this form to potential buyers. This requirement is in place to ensure transparency and inform buyers about the property's condition and any known issues before the transaction is completed. Withholding this form can lead to legal complications and may impede the sale process, as the buyer is entitled to this essential information to make an informed decision regarding their purchase. Providing the disclosure form is part of the seller's responsibilities in the transaction and reflects good faith in the sales process.

10. Which statement is true regarding 'net' listings in the State of Indiana?

A. They require a minimum commission amount.

B. They must show a maximum amount of commission.

C. They can be verbal agreements.

D. They are prohibited by state law.

In Indiana, 'net' listings refer to a type of listing agreement where the seller specifies the net amount they wish to receive from the sale of their property, and any amount above that is considered the broker's commission. For such agreements to be compliant with state regulations, it is crucial that the commission structure is clearly communicated. The correct choice emphasizes that net listings must show a maximum amount of commission. This requirement is in place to ensure transparency and to protect both the seller and broker from potential exploitation. By stipulating a maximum commission amount, it sets clear expectations and boundaries regarding what the broker can earn, thereby helping to avoid disputes or misunderstandings after the sale. In contrast, a minimum commission amount is not typically a requirement for net listings. Verbal agreements for net listings are generally discouraged and may not hold up in legal contexts due to their lack of formal documentation. Lastly, while net listings can raise ethical concerns, they are not outright prohibited by state law; however, they must adhere to specific regulatory guidelines, including the requirement to disclose the commission structure. This context underlines the importance of having a clearly defined commission to maintain both compliance and fairness in real estate transactions.