

Michigan Real Estate Salesperson Licensing - 3 hour PSI Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. Which of the following best describes a land contract?**
 - A. A contract requiring full payment upfront**
 - B. A seller-financed purchase agreement**
 - C. A lease with an option to buy**
 - D. A traditional mortgage agreement**

- 2. What can be concluded about functional obsolescence in a property?**
 - A. It only affects older homes**
 - B. It can be a result of changes in buyer preferences**
 - C. It is necessary for price valuation**
 - D. It has no impact on property value**

- 3. In Michigan real estate, what is the purpose of a title search?**
 - A. To determine property tax obligations**
 - B. To verify the legal ownership of a property**
 - C. To assess property value**
 - D. To set management fees**

- 4. What does the three-day rule in real estate transactions stipulate?**
 - A. Buyers may rescind a purchase agreement within three days**
 - B. Only three days are allowed for inspections**
 - C. Offers must be accepted within three days**
 - D. Contracts expire after three days**

- 5. What is the term for using a property in a manner inconsistent with current zoning regulations?**
 - A. Zoning variance**
 - B. Non-conforming use**
 - C. Conditional use**
 - D. Special exception**

- 6. Which type of insurance might a lender require for properties located in flood-prone areas?**
- A. Homeowner's insurance**
 - B. Earthquake insurance**
 - C. Flood insurance**
 - D. Fire insurance**
- 7. Which ownership type provides the most complete control over a property?**
- A. Leasehold**
 - B. Life estate**
 - C. Fee simple**
 - D. Joint tenancy**
- 8. Which document acts as an assurance to the lender regarding the property's condition?**
- A. Home warranty**
 - B. Appraisal report**
 - C. Inspection report**
 - D. Purchase agreement**
- 9. What are the cash flow responsibilities of a tenant in a triple net lease?**
- A. Only paying rent**
 - B. Paying taxes, insurance, and maintenance costs**
 - C. Covering tenant improvement costs**
 - D. Only paying utilities**
- 10. Which of the following is an example of discriminatory lending practices?**
- A. Accepting high-risk borrowers**
 - B. Redlining based on geographic area**
 - C. Assisting all applicants uniformly**
 - D. Offering a variety of loan products**

Answers

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

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Explanations

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1. Which of the following best describes a land contract?

- A. A contract requiring full payment upfront**
- B. A seller-financed purchase agreement**
- C. A lease with an option to buy**
- D. A traditional mortgage agreement**

A land contract, also known as a contract for deed, is a seller-financed purchase agreement where the buyer makes payments directly to the seller over a specified period. This type of contract allows the buyer to take possession of the property while they are still making payments, and the title to the property is retained by the seller until the full purchase price is paid. This arrangement can be advantageous for buyers who may not qualify for traditional financing. In contrast, the other options do not accurately represent the nature of a land contract. For instance, requiring full payment upfront does not align with the payment structure typical of land contracts, where payments are extended over time. A lease with an option to buy indicates a different type of agreement that involves renting a property with an option to purchase later, which is not the same as a land contract. Similarly, a traditional mortgage agreement requires involvement from a financial institution, with the buyer receiving loan funds to purchase the property outright, differing fundamentally from the seller-financing approach used in land contracts.

2. What can be concluded about functional obsolescence in a property?

- A. It only affects older homes**
- B. It can be a result of changes in buyer preferences**
- C. It is necessary for price valuation**
- D. It has no impact on property value**

Functional obsolescence refers to a decrease in a property's value due to outdated features or design that do not meet current market demands or buyer preferences. This type of obsolescence can occur in both older and newer properties, as it is often related to shifts in what buyers find desirable. For example, a home that lacks modern amenities or has a layout that is no longer appealing may experience functional obsolescence, even if it is relatively new. The recognition of buyer preferences is critical because these preferences evolve over time due to factors like lifestyle changes, technological advancements, and shifts in demographic trends. A property that might have been considered ideal a few years ago could face obsolescence as buyers increasingly favor open floor plans, energy-efficient features, or smart home technology. While functional obsolescence can certainly influence valuation, it is not necessarily "necessary" for price valuation, nor does it solely pertain to older homes. Additionally, it certainly impacts property value rather than having no effect at all. Therefore, the conclusion regarding changes in buyer preferences directly ties to the concept of functional obsolescence and highlights its significance in real estate.

3. In Michigan real estate, what is the purpose of a title search?

- A. To determine property tax obligations**
- B. To verify the legal ownership of a property**
- C. To assess property value**
- D. To set management fees**

The purpose of a title search in Michigan real estate is to verify the legal ownership of a property. This process involves examining public records to trace the history of the title from the present owner back to its origin. By performing a title search, real estate professionals ensure that the seller has the legal right to sell the property and confirm that there are no outstanding claims, liens, or encumbrances that could affect the ownership. Establishing clear title is essential for preventing legal disputes after the sale and ensuring that the buyer receives a clean title to the property. While determining property tax obligations, assessing property value, and setting management fees are important aspects of real estate transactions, they do not directly relate to the title search's primary function, which focuses solely on verifying ownership and ensuring that the property can be transferred without legal challenges.

4. What does the three-day rule in real estate transactions stipulate?

- A. Buyers may rescind a purchase agreement within three days**
- B. Only three days are allowed for inspections**
- C. Offers must be accepted within three days**
- D. Contracts expire after three days**

The three-day rule in real estate transactions pertains specifically to the rights of buyers regarding the rescission of a purchase agreement. This rule allows buyers to back out of a purchase agreement within three days of signing the document, provided that they communicate their decision in writing. This provision is essential as it offers a safeguard for buyers, allowing them to reconsider their decisions shortly after entering into a contract, which helps to protect them from any potential buyer's remorse or unforeseen circumstances that may arise. The other options represent common misconceptions about timelines and regulations in real estate transactions. For example, inspection timelines can vary depending on the agreement and local regulations, and while timely offers are important, there is no universal rule requiring that offers must be accepted within three days. Additionally, contracts do not universally expire after three days, as their validity often depends on the terms outlined within them. The three-day rescission right is a unique feature for buyers to ensure they have the chance to reassess their commitment post-signing.

5. What is the term for using a property in a manner inconsistent with current zoning regulations?

- A. Zoning variance**
- B. Non-conforming use**
- C. Conditional use**
- D. Special exception**

The term for using a property in a manner inconsistent with current zoning regulations is known as "non-conforming use." This concept arises when a property was legally established and operated in compliance with zoning laws prior to any changes in those regulations. For example, if a residential area previously allowed a small factory and later the zoning laws changed to exclusively residential use, the factory can continue to operate under non-conforming use, even though it no longer aligns with the current zoning. This designation allows existing properties to continue their operations without being immediately shut down or forced to comply with new restrictions, acknowledging the investment made by the property owner. Non-conforming use is typically subject to specific conditions to prevent the expansion of the use, which helps mitigate potential conflicts with the surrounding zoning objectives. In contrast, terms like zoning variance, conditional use, and special exceptions refer to different zoning concepts. A zoning variance permits deviations from specific zoning requirements under certain circumstances. Conditional use allows a property to be used in a way that is generally inconsistent with zoning regulations but is approved under specific conditions. A special exception often refers to a use that may not be outright compatible with zoning, requiring a special application process for approval. Each of these terms involves additional processes and criteria for compliance, unlike non

6. Which type of insurance might a lender require for properties located in flood-prone areas?

- A. Homeowner's insurance**
- B. Earthquake insurance**
- C. Flood insurance**
- D. Fire insurance**

In flood-prone areas, lenders typically require flood insurance to protect the property from potential flood damage. Flood insurance is specifically designed to cover losses due to flooding, which is not included in standard homeowner's insurance policies. Since flooding poses a unique risk that could cause significant financial loss and structural damage to properties, especially in designated flood zones, lenders mandate this type of coverage to ensure that their investment is adequately safeguarded. This requirement aligns with federal regulations, especially in areas that participate in the National Flood Insurance Program (NFIP). Having flood insurance in place not only protects the borrower and property owner but also ensures that the lender has recourse in the event of flood-related damages, thus minimizing their financial risk.

7. Which ownership type provides the most complete control over a property?

- A. Leasehold**
- B. Life estate**
- C. Fee simple**
- D. Joint tenancy**

Fee simple ownership is the type that offers the most complete control over a property. This form of ownership grants the owner the greatest bundle of rights, including the rights to sell, lease, or build on the property, as well as to transfer ownership upon death, either through a will or by law. With fee simple ownership, the owner has the ability to use the land without restrictions imposed by others, except for public laws and regulations. This type of ownership is not limited in duration, meaning the owner's interest in the property continues indefinitely and can be passed to heirs. In contrast, leasehold ownership refers to a tenant's rights to use a property for a specific period under a lease, but it does not confer full ownership rights and control. Life estates grant ownership for the duration of a person's life, after which the property passes to another party, limiting control over the property after the life tenant's death. Joint tenancy involves shared ownership between two or more individuals, which includes rights of survivorship; however, this arrangement can lead to disputes and limits individual control over the entirety of the property. Thus, fee simple provides absolute ownership, enabling the owner to exercise comprehensive control without the limitations present in other forms of property ownership.

8. Which document acts as an assurance to the lender regarding the property's condition?

- A. Home warranty**
- B. Appraisal report**
- C. Inspection report**
- D. Purchase agreement**

The inspection report serves as the assurance to the lender regarding the property's condition. Typically conducted by a certified inspector, this report provides a detailed assessment of the property's condition, identifying any potential issues that could affect its value or safety. Lenders place significant importance on the inspection report because it reveals the state of the property, which can impact their investment risk. If major defects or safety hazards are present, this information is crucial for the lender in determining whether to approve financing for the buyer. In this context, while a home warranty may protect the buyer against future repairs, it does not directly address the current condition of the property at the time of sale. An appraisal report, on the other hand, evaluates the property's market value rather than its condition, and the purchase agreement outlines the terms of sale without providing any assurance regarding the property's current state. Thus, the inspection report is the only document that specifically addresses the property's condition in a way that assures the lender.

9. What are the cash flow responsibilities of a tenant in a triple net lease?

A. Only paying rent

B. Paying taxes, insurance, and maintenance costs

C. Covering tenant improvement costs

D. Only paying utilities

In a triple net lease, the tenant has specific cash flow responsibilities that extend beyond merely paying rent. This type of lease typically requires the tenant to pay not only the rent but also three additional key expenses: property taxes, insurance, and maintenance costs. The rationale behind this arrangement is that the landlord transfers many of the operational financial burdens associated with the property to the tenant. As a result, in a triple net lease, the tenant assumes responsibility for these costs, allowing the landlord to receive a more predictable cash flow while minimizing their involvement in the property's day-to-day financial management. By paying these costs, the tenant effectively contributes to the overall financial health of the property, which can also impact the property's valuation over time. Understanding the full scope of a triple net lease is crucial for both landlords and tenants as it significantly alters the financial dynamics of the leasing arrangement.

10. Which of the following is an example of discriminatory lending practices?

A. Accepting high-risk borrowers

B. Redlining based on geographic area

C. Assisting all applicants uniformly

D. Offering a variety of loan products

Discriminatory lending practices refer to actions by lenders that unfairly limit or deny access to loans based on specific characteristics of borrowers, such as race, gender, or geographic area, rather than their creditworthiness or financial stability. Redlining is a specific form of discriminatory lending where lenders refuse to offer loans or insurance to individuals in certain geographical areas, often based on the racial or ethnic composition of those areas. This practice not only denies individuals the opportunity to purchase homes or secure financing but reinforces systemic inequalities within communities. In contrast, accepting high-risk borrowers, assisting all applicants uniformly, and offering a variety of loan products do not constitute discriminatory practices. These actions reflect inclusive lending policies aimed at providing equal access to financial services for all applicants, regardless of their background or location. Therefore, recognizing redlining as discriminatory lending highlights the importance of fair lending standards to prevent discrimination in the financial services industry.