

New Mexico Real Estate Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. What does a buyer typically receive at closing in New Mexico?**
 - A. Only the keys to the property**
 - B. Title to the property and keys**
 - C. A rental agreement for the property**
 - D. Documentation for obtaining financing**
- 2. In New Mexico, what is the term for property tax assessed based on property value?**
 - A. Sales Tax**
 - B. Ad Valorem Tax**
 - C. Transfer Tax**
 - D. Special Assessment Tax**
- 3. What is a "broker's price opinion"?**
 - A. An opinion expressed by the borrower on property value**
 - B. An estimate of a property's value provided by a broker**
 - C. A report based on previous sales in the area**
 - D. An appraisal required by banks for lending**
- 4. What duty is owed to an agent's client but NOT to a transaction broker's client or customer?**
 - A. Honesty and reasonable care**
 - B. Loyalty and obedience**
 - C. Performance of any oral written agreements**
 - D. Prompt accounting for all monies**
- 5. What is a "lease option"?**
 - A. An agreement that allows a tenant to rent the property only**
 - B. An agreement that allows a tenant to purchase the property at the end of the lease term**
 - C. A type of agreement for tenant improvements**
 - D. A short-term rental arrangement during renovation**

- 6. What purpose does a property disclosure statement serve?**
- A. To set the listing price of the property**
 - B. To notify buyers of potential tax liabilities**
 - C. To disclose known defects of the property to potential buyers**
 - D. To confirm the property's square footage**
- 7. What is a common consequence of failing to disclose a material fact in a real estate transaction?**
- A. Lower property value**
 - B. Legal action against the broker**
 - C. Higher negotiation costs**
 - D. Loss of client trust**
- 8. What is the primary agency that regulates real estate in New Mexico?**
- A. New Mexico Real Estate Commission**
 - B. New Mexico Department of Commerce**
 - C. New Mexico Association of Realtors**
 - D. New Mexico Secretary of State**
- 9. Who can be the trustee of a trust account?**
- A. Buyer's agent**
 - B. A certified public accountant**
 - C. The qualifying broker**
 - D. The brokerage bookkeeper**
- 10. What is the function of "eminent domain"?**
- A. To assess property taxes for new constructions**
 - B. To take private property for public use with compensation**
 - C. To offer tax discounts for property development**
 - D. To regulate zoning laws in urban areas**

Answers

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

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Explanations

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1. What does a buyer typically receive at closing in New Mexico?

- A. Only the keys to the property**
- B. Title to the property and keys**
- C. A rental agreement for the property**
- D. Documentation for obtaining financing**

At closing in New Mexico, a buyer typically receives title to the property as well as the keys. This transfer of title signifies that ownership has officially changed from the seller to the buyer, and the buyer has the legal right to possess and use the property. The keys are symbolic of the new ownership and allow the buyer to access their new home. Receiving only the keys would not suffice, as the key represents physical access but not legal ownership. A rental agreement would not be provided in a purchase situation, as this pertains to leasing rather than buying a property. Documentation for obtaining financing relates to the buyer's ability to secure a loan, but does not constitute what is received at closing. Therefore, the correct answer reflects both the transfer of ownership and access to the property, which are crucial components of the closing process in real estate transactions.

2. In New Mexico, what is the term for property tax assessed based on property value?

- A. Sales Tax**
- B. Ad Valorem Tax**
- C. Transfer Tax**
- D. Special Assessment Tax**

The correct term for property tax assessed based on property value in New Mexico is "Ad Valorem Tax." This type of tax is calculated as a percentage of the assessed value of the property, which means that as the value of the property increases or decreases, so too does the amount of tax owed. This approach is widely used in many jurisdictions because it directly correlates the amount of tax a property owner pays with the value of their property, thereby making it a fair system based on actual worth. Sales tax refers to a different type of taxation applied to goods and services purchased, not to real estate itself. Transfer tax involves taxes levied on the transfer of property from one owner to another, typically at the time of sale, rather than on the ongoing ownership of property based on its assessed value. Special assessment tax is a different category of tax that may be levied for specific improvements or services that benefit a particular property, such as street improvements or sewer changes, rather than a broad-based tax measured by value. Thus, Ad Valorem Tax is the most accurate term for property taxes derived from property value assessments.

3. What is a "broker's price opinion"?

- A. An opinion expressed by the borrower on property value
- B. An estimate of a property's value provided by a broker**
- C. A report based on previous sales in the area
- D. An appraisal required by banks for lending

A "broker's price opinion" (BPO) is defined as an estimate of a property's value provided by a licensed real estate broker. This assessment is typically based on the broker's knowledge of the real estate market and recent sales data in the area. It represents the broker's professional judgment regarding the likely selling price of a property, taking into account factors such as location, property condition, and market trends. BPOs are often used in various scenarios, including setting a listing price for a property, evaluating a property for sale, or even for short sales and foreclosures. They are less formal than a full appraisal but are still grounded in research and market analysis conducted by someone knowledgeable about the local real estate landscape. A choice regarding an opinion expressed by the borrower does not capture the essence of a broker's price opinion, as a BPO is constructed by a broker based on their expertise rather than the borrower's perspective. Similarly, while a report based on previous sales can be part of the analysis leading to a BPO, it does not fully represent what a BPO is. Lastly, a BPO is not the same as an appraisal, which is a more detailed and regulated evaluation typically required by financial institutions when underwriting loans. Thus,

4. What duty is owed to an agent's client but NOT to a transaction broker's client or customer?

- A. Honesty and reasonable care
- B. Loyalty and obedience**
- C. Performance of any oral written agreements
- D. Prompt accounting for all monies

The duty of loyalty and obedience is a fundamental responsibility that an agent owes exclusively to their client. This duty ensures that the agent acts in the best interests of the client, prioritizing their needs and desires above all else. It encompasses the obligation to follow the lawful instructions of the client and to remain dedicated to the client's objectives throughout the transaction. In contrast, a transaction broker operates differently. They provide limited services and do not owe the same fiduciary responsibilities, such as loyalty and obedience, to clients or customers. The transaction broker's role is more neutral, primarily facilitating the transaction without advocating for one party over another. As a result, they do not have the same level of commitment to prioritizing a client's interests, which includes not having the duty of loyalty. Honesty and reasonable care, along with the performance of any oral or written agreements and prompt accounting for all monies, represent duties that can apply to both agents and transaction brokers. However, the duty of loyalty and obedience sets the agent apart in their role, highlighting their obligation to uphold a stronger fiduciary relationship with their client.

5. What is a "lease option"?

- A. An agreement that allows a tenant to rent the property only
- B. An agreement that allows a tenant to purchase the property at the end of the lease term**
- C. A type of agreement for tenant improvements
- D. A short-term rental arrangement during renovation

A lease option is a legal agreement that combines a lease and an option to purchase. Specifically, it grants a tenant the right to buy the property at a predetermined price after a certain period, usually at the end of the lease term. This arrangement benefits the tenant by providing the opportunity to own the property in the future while allowing them to occupy and use it immediately. It creates a pathway for tenants who may not currently qualify for a mortgage or are uncertain about their ability to buy a home. The option to purchase is often outlined explicitly in the lease agreement, including the duration of the option and the predetermined purchase price. The other choices present alternative scenarios. The first option describes a typical rental agreement without any purchasing rights. The third option relates to improvements made by a tenant and does not include any purchasing agreement. The fourth option refers to a temporary rental situation unrelated to a lease option, which focuses specifically on rental arrangements during renovations. These descriptions do not encapsulate the essence of a lease option.

6. What purpose does a property disclosure statement serve?

- A. To set the listing price of the property
- B. To notify buyers of potential tax liabilities
- C. To disclose known defects of the property to potential buyers**
- D. To confirm the property's square footage

A property disclosure statement primarily serves to disclose known defects of the property to potential buyers. This document is a crucial aspect of the real estate transaction process, as it provides transparency about the property's condition. Sellers are legally required to inform potential buyers of any material defects that could affect the property's value or the buyers' willingness to purchase. This includes both physical defects, such as water damage or structural issues, and other known issues, like problems with plumbing or electrical systems. By providing this information upfront, the property disclosure statement helps buyers make informed decisions and potentially avoid costly surprises after the purchase. It also protects the seller from future legal liabilities that may arise if undisclosed issues are discovered after the sale. The statement is intended to foster trust in the transaction and is often a legal requirement in many jurisdictions.

7. What is a common consequence of failing to disclose a material fact in a real estate transaction?

- A. Lower property value**
- B. Legal action against the broker**
- C. Higher negotiation costs**
- D. Loss of client trust**

Failing to disclose a material fact in a real estate transaction often results in potential legal consequences for the broker involved. This is because sellers and brokers are legally obligated to disclose certain significant information that might affect the buyer's decision to purchase a property. If a material fact is not disclosed—such as structural issues, zoning violations, or environmental hazards—the broker could be subject to legal action from the buyer. This legal action could manifest as lawsuits for fraud, misrepresentation, or breach of duty, leading to costly repercussions for the broker both financially and professionally. It's essential for brokers to adhere to disclosure laws and ethical standards to avoid these legal issues, as transparency is a foundational element of trust in the transaction process. Other options may reflect potential scenarios or outcomes that could occur in the context of the transaction, but the direct and immediate consequence of failing to disclose a material fact primarily aligns with the risk of legal action against the broker.

8. What is the primary agency that regulates real estate in New Mexico?

- A. New Mexico Real Estate Commission**
- B. New Mexico Department of Commerce**
- C. New Mexico Association of Realtors**
- D. New Mexico Secretary of State**

The New Mexico Real Estate Commission is the primary regulatory body for real estate in the state. Its main responsibilities include overseeing real estate licenses, enforcing real estate laws, and ensuring that real estate practices comply with state regulations. The commission is instrumental in protecting the interests of the public by setting standards for ethical practice and providing a framework for real estate transactions. In contrast, the New Mexico Department of Commerce is focused on broader economic development and business regulation, while the New Mexico Association of Realtors serves as a trade association for real estate professionals, providing resources, advocacy, and training but does not have regulatory power. The New Mexico Secretary of State's office is involved in various administrative duties, including the filing of business documents and managing elections, but it does not primarily regulate real estate activities. Thus, the distinct role of the New Mexico Real Estate Commission clearly positions it as the key agency governing real estate practices in the state.

9. Who can be the trustee of a trust account?

- A. Buyer's agent
- B. A certified public accountant
- C. The qualifying broker**
- D. The brokerage bookkeeper

The qualifying broker is a responsible individual within a real estate brokerage who has the authority and accountability over the trust accounts maintained by the brokerage. According to New Mexico real estate regulations, the qualifying broker must ensure that all funds are handled properly and in compliance with legal requirements. This role involves oversight of the trust accounts, which are designed to hold client funds safely until they are disbursed in accordance with contractual agreements. Having the qualifying broker as the trustee of a trust account ensures that there is a designated person with the necessary training and authority to manage these funds responsibly. This is crucial in real estate transactions, where the handling of earnest money, security deposits, and other client funds must be meticulously managed to prevent any unauthorized access or misappropriation. Other roles, like the buyer's agent, a certified public accountant, or the brokerage bookkeeper, lack the specific authority granted to a qualifying broker when it comes to the oversight and management of trust accounts in a real estate context. While they may play important roles in a transaction or in financial reporting, they do not possess the same level of accountability required under the law to manage a trust account effectively.

10. What is the function of "eminent domain"?

- A. To assess property taxes for new constructions
- B. To take private property for public use with compensation**
- C. To offer tax discounts for property development
- D. To regulate zoning laws in urban areas

Eminent domain is a legal principle that allows the government to take private property for public use, provided that the property owner is compensated fairly. This function exists to enable the government to acquire land necessary for public projects such as roads, parks, schools, and infrastructure improvements that benefit the community at large. The requirement for compensation ensures that property owners are not left at a loss when their land is appropriated for these essential public purposes. The other choices do not correctly describe the function of eminent domain. Revenue assessment for property taxes relates more to local government functions and does not involve the acquisition of land. Tax discounts are incentives related to property development, which do not involve taking property. Regulation of zoning laws pertains to land use planning and does not involve the government's ability to take private property. Each of these options represents a distinct function that does not align with the primary purpose of eminent domain.