

Real Estate Risk Management Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2025 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain from reliable sources accurate, complete, and timely information about this product.

SAMPLE

Questions

SAMPLE

- 1. Which of the following is considered a disability under the fair housing law?**
 - A. Compulsive gambling**
 - B. Psychoactive substance use disorders resulting from the current use of illegal drugs**
 - C. Homosexuality and bisexuality**
 - D. HIV/AIDS**
- 2. How are damages treated under the Sherman Act in civil actions?**
 - A. They are awarded at face value**
 - B. They can be multiplied by three for plaintiffs**
 - C. They are capped at \$100,000**
 - D. They are designed to discourage minor infractions**
- 3. Which of the following is NOT an example of anti-competitive conduct that would be deemed illegal?**
 - A. Deciding to fix commission fees to match the commissions arranged by other licensees**
 - B. Requiring an investor to only use their property management brokerage when the investor wants to sell the property**
 - C. Working together with other brokers to boycott a competing broker's property listings**
 - D. Limiting MLS membership using criteria designed to reasonably protect the integrity of the MLS**
- 4. What are legal risks associated with real estate?**
 - A. The risk of economic downturns affecting property sales**
 - B. Potential litigation, regulatory compliance issues, and contractual disputes**
 - C. Challenges in maintaining property values in fluctuating markets**
 - D. Inability to attract quality tenants**

- 5. Which statement is true regarding lead-based paint disclosures?**
- A. They're only applicable in California**
 - B. They apply to all 50 states**
 - C. They are optional for sellers**
 - D. They only apply to homes built before 1980**
- 6. What is the key element in defining an agreement as price fixing?**
- A. Agreement on a specific percentage increase**
 - B. Collaboration among multiple brokers**
 - C. Written contracts between all parties**
 - D. Setting fixed minimum standards**
- 7. Dual agency occurs when the same licensee represents two or more principals that are:**
- A. Negotiating with each other in the same transaction**
 - B. Both owed a referral fee for business**
 - C. Family members**
 - D. Also real estate agents who work for different real estate brokerages**
- 8. What does a well-conducted tenant screening process primarily evaluate?**
- A. Market trends and location viability**
 - B. Tenants' credit histories and rental histories**
 - C. Property management fees**
 - D. The aesthetic appeal of the rental unit**
- 9. What legal concept does the act of conditioning discounts based on future listings represent?**
- A. Monopolization**
 - B. Tying arrangement**
 - C. Group boycott**
 - D. Horizontal restraint**

10. What are common forms of real estate insurance?

- A. Health insurance and unemployment insurance**
- B. Property insurance and liability insurance**
- C. Auto insurance and life insurance**
- D. Travel insurance and personal insurance**

SAMPLE

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. Which of the following is considered a disability under the fair housing law?

- A. Compulsive gambling**
- B. Psychoactive substance use disorders resulting from the current use of illegal drugs**
- C. Homosexuality and bisexuality**
- D. HIV/AIDS**

Under fair housing law, a disability is defined as a physical or mental impairment that substantially limits one or more major life activities. This definition specifically encompasses a range of disabilities that are recognized by the law. HIV/AIDS is included as a disability under fair housing protections. Individuals diagnosed with these conditions are considered to have a disability because HIV/AIDS can significantly impact various life activities, including but not limited to physical health, employment, and social interactions. The law provides protections against discrimination in housing for individuals with HIV/AIDS, ensuring they have equal rights to access housing. In contrast, compulsive gambling does not universally qualify as a disability under fair housing law unless it results in a substantial limitation of a major life activity. Psychoactive substance use disorders related to current illegal drug use are not protected, and homosexuality and bisexuality, while they relate to personal identity, are not classified as disabilities under the definitions applied in fair housing legislation. Therefore, HIV/AIDS stands out as the correct answer.

2. How are damages treated under the Sherman Act in civil actions?

- A. They are awarded at face value**
- B. They can be multiplied by three for plaintiffs**
- C. They are capped at \$100,000**
- D. They are designed to discourage minor infractions**

Under the Sherman Act in civil actions, damages can indeed be multiplied by three for plaintiffs, which is known as "treble damages." This provision is designed to serve as a strong deterrent against anti-competitive behaviors that violate the Act. The intent behind treble damages is to not only compensate the injured party for their losses but also to dissuade potential violators by significantly increasing the financial repercussions of unlawful conduct. This mechanism encourages individuals and businesses to report violations, fostering a healthier competitive environment in the marketplace. In contrast, other potential options, such as being capped at a certain value or awarded at face value, do not accurately reflect the legal framework established by the Sherman Act. The law clearly aims to impose stricter consequences on violators to promote compliance and safeguard competition.

3. Which of the following is NOT an example of anti-competitive conduct that would be deemed illegal?
- A. Deciding to fix commission fees to match the commissions arranged by other licensees
 - B. Requiring an investor to only use their property management brokerage when the investor wants to sell the property
 - C. Working together with other brokers to boycott a competing broker's property listings
 - D. Limiting MLS membership using criteria designed to reasonably protect the integrity of the MLS**

The correct choice indicates the option that is not deemed anti-competitive conduct because it highlights the importance of maintaining the integrity of the Multiple Listing Service (MLS) while still allowing for some levels of criteria enforcement. Limiting MLS membership based on criteria that are designed to protect the integrity of the MLS can be a legitimate practice, as it ensures that only qualified individuals or entities with a track record of professionalism and ethical behavior can participate. This practice aims to enhance the quality of listings and protect both consumers and brokers by fostering a trustworthy marketplace. On the other hand, fixing commission fees or requiring exclusive use of a specific brokerage for property management directly manipulate market competition and could harm consumers by limiting their choices. Similarly, colluding with other brokers to boycott a competitor is an overt attempt to stifle competition, which goes against fair market practices. These activities can distort the housing market and harm consumers by restricting access to services, which is why they are classified as illegal anti-competitive conduct. The focus of the correct choice is on ensuring professional standards without restricting competition, aligning with legal frameworks governing real estate practices.

4. What are legal risks associated with real estate?
- A. The risk of economic downturns affecting property sales
 - B. Potential litigation, regulatory compliance issues, and contractual disputes**
 - C. Challenges in maintaining property values in fluctuating markets
 - D. Inability to attract quality tenants

Legal risks in real estate primarily pertain to issues that arise from litigation, regulatory compliance, and disputes related to contracts. The option that identifies potential litigation highlights the possibility of lawsuits stemming from various real estate activities, such as issues involving property transactions, tenant disputes, landlord responsibilities, or zoning regulations. Regulatory compliance issues refer to the need for adherence to federal, state, and local laws related to real estate, including environmental regulations, building codes, and fair housing laws. Contractual disputes can arise from misunderstandings or disagreements regarding the terms and conditions of purchase agreements, leases, or other real estate contracts. These factors illustrate the multifaceted nature of legal risks, encompassing not only the chance of unresolved disputes but also the requirements to navigate complex legal frameworks, which can significantly impact real estate operations. Understanding these legal dimensions is crucial for real estate professionals to mitigate risks and ensure compliance in their practices.

5. Which statement is true regarding lead-based paint disclosures?

- A. They're only applicable in California**
- B. They apply to all 50 states**
- C. They are optional for sellers**
- D. They only apply to homes built before 1980**

The statement that lead-based paint disclosures apply to all 50 states is accurate because the federal law mandates that sellers and landlords of properties built before 1978 must disclose any known information regarding lead-based paint and its hazards. This requirement was established under the Residential Lead-Based Paint Hazard Reduction Act of 1992, ensuring that potential buyers and renters are informed of the presence of lead hazards in older homes. The law is not limited to specific states or regions; it is a nationwide requirement applicable to all states, reinforcing the necessity for caution and awareness concerning lead paint issues across the entire country. The other options incorrectly limit the applicability to certain states, suggest that disclosures are optional, or incorrectly specify a cutoff date for when homes should be considered for disclosure. Understanding the comprehensive reach of these regulations helps ensure compliance and promotes health and safety in housing markets.

6. What is the key element in defining an agreement as price fixing?

- A. Agreement on a specific percentage increase**
- B. Collaboration among multiple brokers**
- C. Written contracts between all parties**
- D. Setting fixed minimum standards**

The essence of price fixing lies in the collaboration among multiple brokers to establish prices collectively, rather than allowing market forces to dictate them. When brokers engage in this kind of collaboration, they are undermining the competitive market by agreeing on prices, which can artificially inflate them or lead to other anti-competitive practices. This is a violation of antitrust laws designed to promote fair competition. While agreeing on a specific percentage increase can be an aspect of price fixing, it is the collaborative effort among brokers that characterizes the practice itself. Written contracts can suggest formal agreements but are not necessary for price fixing to occur, as informal agreements can also lead to similar outcomes. Setting fixed minimum standards does not inherently involve collusion to control prices; it may relate more to ensuring quality rather than manipulating price structures. Thus, the critical factor in defining price fixing is the cooperation and collusion among brokers to set prices collectively.

7. Dual agency occurs when the same licensee represents two or more principals that are:

- A. Negotiating with each other in the same transaction**
- B. Both owed a referral fee for business**
- C. Family members**
- D. Also real estate agents who work for different real estate brokerages**

Dual agency occurs when a single licensee represents two or more principals who are negotiating with each other in the same transaction. This situation creates a unique set of dynamics because the licensee must balance the interests of both parties, which can lead to potential conflicts of interest. The licensee is obligated to maintain confidentiality and provide fair treatment to both sides, making it a complex role. In a transaction where the licensee represents both the buyer and the seller, they must navigate the preferences and goals of each party, while ensuring that neither is put at a disadvantage. This relationship must be disclosed to all parties involved, and both must consent to the dual representation. This is crucial in maintaining transparency and complying with legal and ethical standards in real estate practice. The other scenarios presented do not inherently involve dual agency. For example, representing family members or agents from different brokerages does not automatically create a dual agency situation unless they are both parties to the same transaction. Similarly, the obligation of referral fees does not set a dual agency condition. The essence of dual agency lies specifically in the negotiation context between the principals in one transaction.

8. What does a well-conducted tenant screening process primarily evaluate?

- A. Market trends and location viability**
- B. Tenants' credit histories and rental histories**
- C. Property management fees**
- D. The aesthetic appeal of the rental unit**

A well-conducted tenant screening process primarily evaluates tenants' credit histories and rental histories. This aspect is crucial because it helps landlords assess the financial responsibility and reliability of potential tenants. Evaluating credit history provides insights into an individual's past financial behavior, such as their ability to pay bills on time and manage debt, which is a strong indicator of how likely they are to fulfill rent obligations. In addition, reviewing rental histories gives landlords information about a tenant's past relationships with previous property owners, including whether they paid rent consistently and how they maintained the property. This thorough evaluation is essential to mitigate risks associated with late payments or property damage, ultimately contributing to more successful and secure rental arrangements.

9. What legal concept does the act of conditioning discounts based on future listings represent?

- A. Monopolization**
- B. Tying arrangement**
- C. Group boycott**
- D. Horizontal restraint**

The act of conditioning discounts based on future listings illustrates a tying arrangement, a legal concept that involves making a buyer's purchase of one product or service contingent upon the purchase of a second product or service. In this context, offering discounts for listing future properties typically means that the seller must agree to list additional properties in order to receive the initial discount, which might be perceived as forcing a consumer into an arrangement that they might not have entered otherwise. Tying arrangements can raise legal concerns, as they may restrict competition and consumer choice, potentially leading to monopolistic practices if one party has a significant market advantage. By establishing such a requirement, the seller essentially leverages the attractiveness of the discount to ensure a continued relationship, which is a key characteristic of tying arrangements in real estate and other industries. This can lead to a loss of market competition since customers may feel compelled to engage more with the seller in order to benefit from the discounts. Understanding the implications of such arrangements is essential for practitioners in real estate risk management to ensure compliance with antitrust laws and maintain fair competition in the marketplace.

10. What are common forms of real estate insurance?

- A. Health insurance and unemployment insurance**
- B. Property insurance and liability insurance**
- C. Auto insurance and life insurance**
- D. Travel insurance and personal insurance**

The reason property insurance and liability insurance are considered common forms of real estate insurance is that they directly relate to the protection of real estate assets and the associated liabilities that come with property ownership. Property insurance typically covers physical structures and can provide financial protection in the event of damage due to events such as fire, theft, or natural disasters. This type of insurance is crucial for property owners to safeguard their investments. Liability insurance, on the other hand, protects property owners from claims made by others regarding bodily injury or property damage that occurs on their premises. This coverage is essential, particularly for landlords or business owners, as it mitigates the financial risks associated with lawsuits or accidental injuries. Other choices listed, such as health insurance, unemployment insurance, auto insurance, life insurance, travel insurance, and personal insurance, do not specifically address the unique risks associated with real estate or property ownership. Thus, they are not recognized as standard types of insurance pertinent to real estate.