

Texas Promulgated Contracts Practice Test (Sample)

Study Guide



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SAMPLE

Questions

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- 1. What is a "short sale" in real estate?**
 - A. A sale where a property is sold for less than the mortgage owed**
 - B. A sale where the property is auctioned to the highest bidder**
 - C. A sale that occurs without a real estate agent**
 - D. A sale that is completed in less than 30 days**
- 2. Which of the following is an exception to a license holder using a TREC-promulgated contract form?**
 - A. if the broker does not want to use the forms**
 - B. if the sale is for a vacant lot in a subdivision**
 - C. if an attorney-prepared form is used**
 - D. if the license holder prepared his or her own form**
- 3. When is a seller required to provide a disclosure of property condition?**
 - A. Before the listing**
 - B. At closing**
 - C. Upon receiving an offer**
 - D. After the buyer's inspection**
- 4. What is the main purpose of providing the lead-based paint pamphlet to buyers?**
 - A. To inform about potential interior damage**
 - B. To promote safe renovation practices**
 - C. To protect families from lead exposure**
 - D. To comply with local health regulations**
- 5. Who is responsible for paying an overage incurred due to a change order?**
 - A. The seller**
 - B. The buyer**
 - C. Splitting the overage equally between seller and buyer**
 - D. The agent**

- 6. What can be included in the special provisions paragraph of the contract?**
- A. Factual business details**
 - B. Statements not addressed in the contract**
 - C. Information for which there is no TREC promulgated addendum**
 - D. All of the above**
- 7. What is a common document used to disclose property conditions to potential buyers?**
- A. Title commitment**
 - B. Seller's Disclosure**
 - C. Loan agreement**
 - D. Inspection report**
- 8. What is "specific performance" in real estate law?**
- A. A remedy to cancel a contract**
 - B. A legal remedy to compel performance of a contract**
 - C. A method of resolving disputes outside of court**
 - D. A process for terminating a lease agreement**
- 9. When are written notices between the parties considered effective?**
- A. Mailed**
 - B. Hand-delivered**
 - C. Faxed or emailed**
 - D. Any of the above**
- 10. When is earnest money typically deposited in a real estate transaction?**
- A. At the time of signing the contract**
 - B. After the inspection period**
 - C. Upon closing of the sale**
 - D. Once the buyer secures financing**

Answers

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

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Explanations

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1. What is a "short sale" in real estate?

- A. A sale where a property is sold for less than the mortgage owed**
- B. A sale where the property is auctioned to the highest bidder**
- C. A sale that occurs without a real estate agent**
- D. A sale that is completed in less than 30 days**

A "short sale" in real estate refers to a situation where a property is sold for less than the amount owed on the mortgage. This typically occurs when the homeowner is facing financial difficulties and cannot continue making mortgage payments, leading them to seek a way to sell the property without further financial loss. In a short sale, the lender must approve the sale because they are agreeing to accept less than the owed amount, which can help the homeowner avoid foreclosure and mitigate some of their financial burdens. This definition and understanding of a short sale are crucial, especially for real estate professionals, as it involves negotiations with lenders and has implications for the seller's credit score and debt relief. Understanding the dynamics of a short sale allows agents to properly guide their clients through the process, setting realistic expectations regarding timelines and potential hurdles in securing lender approval. Other options do not accurately describe a short sale and focus on different aspects of real estate transactions.

2. Which of the following is an exception to a license holder using a TREC-promulgated contract form?

- A. if the broker does not want to use the forms**
- B. if the sale is for a vacant lot in a subdivision**
- C. if an attorney-prepared form is used**
- D. if the license holder prepared his or her own form**

The correct answer identifies that using an attorney-prepared form is an exception to the requirement for license holders to use Texas Real Estate Commission (TREC)-promulgated contract forms. In Texas, individuals who are licensed for real estate transactions must typically utilize these standardized forms to ensure compliance with state regulations and to protect the interests of all parties involved in a transaction. However, the law recognizes that attorneys, who are trained in contract law, have the authority to draft their own legal documents. Therefore, when a transaction involves an attorney-prepared form, it is permissible for a license holder to use such a document in lieu of the TREC-promulgated forms. This exception acknowledges the legal expertise that attorneys provide in drafting contracts, which may be tailored to specific needs or situations beyond what the standardized forms cover. The other situations presented do not represent valid exceptions to the requirement to use TREC forms. For instance, a broker's personal preference against using standard forms does not exempt them from adhering to the rules set by the Texas Real Estate Commission. Similarly, selling a vacant lot in a subdivision does not fall under any special circumstances that would allow for bypassing the use of TREC-promulgated forms, nor does the act of a license holder preparing

3. When is a seller required to provide a disclosure of property condition?

- A. Before the listing**
- B. At closing**
- C. Upon receiving an offer**
- D. After the buyer's inspection**

The seller is required to provide a disclosure of property condition before the listing of the property. This requirement is in place to ensure that potential buyers are informed about the condition of the property from the outset of their interest. By providing this disclosure early in the process, sellers can help foster transparency and trust with prospective buyers, enabling them to make informed decisions prior to making an offer. In the context of real estate transactions, it is crucial for sellers to disclose known issues related to the property before negotiations commence, allowing buyers to weigh the risks and benefits associated with the property. This practice not only aligns with legal requirements but also helps avoid misunderstandings or disputes down the road. Providing the disclosure after the listing, at closing, or upon receiving an offer would not meet the initial intent of informing buyers about the property's condition, which is best achieved well before negotiations begin. This proactive approach helps to ensure that transactions are carried out smoothly and ethically.

4. What is the main purpose of providing the lead-based paint pamphlet to buyers?

- A. To inform about potential interior damage**
- B. To promote safe renovation practices**
- C. To protect families from lead exposure**
- D. To comply with local health regulations**

The main purpose of providing the lead-based paint pamphlet to buyers is to protect families from lead exposure. This pamphlet plays a crucial role in educating buyers about the potential risks associated with lead-based paint, which was commonly used in homes built before 1978. Exposure to lead can have serious health effects, particularly for young children and pregnant women, making it essential for buyers to be aware of these hazards. The pamphlet outlines the dangers of lead exposure, provides guidance on recognizing lead-based paint, and offers strategies on how to minimize risks in homes where lead paint may be present. By fulfilling this obligation, sellers demonstrate a commitment to the health and safety of their buyers and help prevent exposure to harmful substances.

5. Who is responsible for paying an overage incurred due to a change order?

A. The seller

B. The buyer

C. Splitting the overage equally between seller and buyer

D. The agent

In the context of construction contracts and change orders, the buyer typically bears responsibility for any overages incurred. A change order represents an amendment to the original contract, often initiated by the buyer due to changes in project scope, design, or materials. As such, when additional costs arise from these modifications, it is generally the buyer's responsibility to cover these expenses. This accountability aligns with the principle that the buyer, who directly requests the changes, is expected to financially support any adjustments that lead to increased costs. The seller's role is primarily to execute the work outlined in the contract; hence, they are not liable for additional costs that result from modifications initiated by the buyer. In contrast, the other responses imply shared or exclusive financial responsibility by entities not typically held accountable for change order-related overages. This clarification helps illuminate the contractual obligations and financial responsibilities inherent in construction agreements.

6. What can be included in the special provisions paragraph of the contract?

A. Factual business details

B. Statements not addressed in the contract

C. Information for which there is no TREC promulgated addendum

D. All of the above

The special provisions paragraph of a contract serves as a flexible area where unique terms and conditions specific to a particular transaction can be included. This can encompass a wide range of information pertinent to the agreement. Including factual business details helps tailor the contract to the specific needs and context of the transaction, ensuring that all relevant aspects are documented. Statements not covered elsewhere in the contract provide room for any additional agreements or clarifications that parties may need to outline, which might not fit into the standard format or pre-printed sections of the contract. Moreover, any information that does not have a corresponding TREC promulgated addendum can also be placed in this section, allowing for customization that reflects the specific circumstances of the deal. By acknowledging all these elements as acceptable inclusions, the special provisions paragraph ensures that the contract can be comprehensive and reflective of the parties' true intentions, accommodating aspects that standardized contracts may not typically cover. This adaptability of the special provisions is key to addressing the unique aspects of a real estate transaction in Texas.

7. What is a common document used to disclose property conditions to potential buyers?

- A. Title commitment**
- B. Seller's Disclosure**
- C. Loan agreement**
- D. Inspection report**

The Seller's Disclosure is a common document used in real estate transactions to inform potential buyers about the condition of the property. This disclosure typically provides detailed information about known issues or defects in the property, such as plumbing or electrical problems, roof conditions, and past pest infestations. By disclosing this information, the seller helps buyers make informed decisions and reduces the risk of future disputes arising from hidden defects or issues that were not communicated before the sale. While a title commitment deals with the status of the property title and ensures there are no liens or encumbrances, it does not contain details about the physical condition of the property itself. A loan agreement is primarily concerned with the financial aspects of purchasing a property, outlining the terms of financing rather than the property's condition. An inspection report, although essential, is typically generated after the buyer has entered into an agreement and is based on a professional inspection rather than the seller's own disclosure.

8. What is "specific performance" in real estate law?

- A. A remedy to cancel a contract**
- B. A legal remedy to compel performance of a contract**
- C. A method of resolving disputes outside of court**
- D. A process for terminating a lease agreement**

Specific performance is a remedy in real estate law that compels a party to fulfill their obligations as outlined in a contract, typically when monetary damages are not an adequate remedy. In real estate transactions, this often refers to the enforcement of a sale contract where one party seeks to compel the other party to complete the transaction as agreed. For instance, if a seller refuses to sell a property to a buyer who has fulfilled all contractual obligations, the buyer may seek specific performance to have the sale enforced. In many cases involving real estate, unique properties hold particular significance, meaning that simply providing financial compensation would not fully address the harm suffered by the aggrieved party. Courts are more likely to grant specific performance in real estate contracts because real property is considered unique, making it more desirable to complete the sale rather than simply awarding damages. This remedy ensures that contractual agreements are honored and that the interests of the parties are adequately protected within the legal framework.

9. When are written notices between the parties considered effective?

- A. Mailed**
- B. Hand-delivered**
- C. Faxed or emailed**
- D. Any of the above**

Written notices between the parties are considered effective when they can be reliably communicated and received by the intended recipient. In Texas real estate transactions, multiple methods of delivery—such as mailing, hand-delivering, or sending via fax or email—are recognized as valid ways to convey written notices. When notice is mailed, it is generally deemed effective on the date it is sent, provided it is sent to the correct address. Hand-delivery ensures immediate receipt, making it an effective method that removes ambiguity regarding delivery time. Electronic communication methods like fax or email also hold legal weight, as they provide a record of transmission and can be instantly received, assuming the parties have agreed to accept such forms of notice. Thus, since all these methods are accepted forms of communication for written notices, the answer encompasses all scenarios, confirming that any of the methods mentioned can be strategically utilized to ensure effective notice between parties.

10. When is earnest money typically deposited in a real estate transaction?

- A. At the time of signing the contract**
- B. After the inspection period**
- C. Upon closing of the sale**
- D. Once the buyer secures financing**

In a typical real estate transaction, earnest money is commonly deposited at the time of signing the contract. This deposit serves as a demonstration of the buyer's good faith and commitment to proceed with the purchase. By providing earnest money upfront, the buyer reassures the seller that they are serious about the offer and intend to fulfill the terms of the contract. This practice helps to solidify the agreement between the buyer and the seller right at the outset of the transaction process. The earnest money is usually held in an escrow account until the sale concludes, at which point it may be applied to the buyer's closing costs or the down payment. In contrast, the other options focus on actions that occur after the initial agreement is established, which is not the standard timing for earnest money deposits. For instance, drawing the deposit to a period after inspections or tied to the closing of the sale does not align with common practices, as earnest money is essentially a part of the initial contractual obligations.