

University of Central Florida (UCF) REE3043 Fundamentals of Real Estate Practice Exam 3 (Sample)

Study Guide



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Questions

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1. What type of agent is typically responsible for dealing with a seller in a real estate transaction?
 - A. Special Agent
 - B. Designated Agent
 - C. Broker-in-Charge
 - D. General Agent
2. How does a market analysis differ from a property appraisal?
 - A. A market analysis provides a formal estimation of value
 - B. A property appraisal is based solely on market trends
 - C. A market analysis evaluates market conditions for selling prices
 - D. A property appraisal is less formal than a market analysis
3. FIRREA was enacted in response to which of the following issues?
 - A. High unemployment rates
 - B. Financial institution failures
 - C. Excessive taxation on bank profits
 - D. Growth of unregulated mortgage markets
4. Which of the following factors does NOT influence real estate market value?
 - A. Location
 - B. Economic conditions
 - C. Personal preference of the seller
 - D. Comparable sales
5. Which of the following is considered a term of a real estate contract?
 - A. Duration of the contract
 - B. Price to be paid
 - C. Type of property
 - D. Location of the property

6. When should borrowers prefer a 30-year mortgage over a 15-year mortgage?
- A. When the mortgage rate exceeds the discount rate
 - B. When the 15-year rate is higher than the 30-year rate
 - C. When the discount rate exceeds the mortgage rate
 - D. When they plan to sell the home in 5 years
7. What are the standard payment ratios for underwriting except for high LTV conventional home loans?
- A. 20% and 30%
 - B. 25% and 35%
 - C. 28% and 36%
 - D. 30% and 40%
8. What is the primary role of the primary mortgage market?
- A. Selling existing loans to investors
 - B. Creating new loans between borrowers and lenders
 - C. Providing housing assistance through government programs
 - D. Offering insurance for mortgage loans
9. What are the basic responsibilities of a real estate salesperson?
- A. To evaluate property worth and set tax assessments
 - B. To assist clients with transactions and provide market advice
 - C. To manage rental properties for landlords
 - D. To conduct home inspections and appraisals
10. Which of the following is a key benefit of a listing agreement?
- A. It guarantees a sale within a set timeframe
 - B. It establishes the agent's commission structure
 - C. It provides financing details for the buyer
 - D. It allows the seller to retain absolute control over property marketing

Answers

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

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Explanations

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1. What type of agent is typically responsible for dealing with a seller in a real estate transaction?

- A. Special Agent
- B. Designated Agent
- C. Broker-in-Charge
- D. General Agent

The correct answer is that a special agent is typically responsible for dealing with a seller in a real estate transaction. A special agent has a limited scope of authority, focusing on a specific task, which in this case is representing the seller in the process of selling their property. This relationship is established through a listing agreement, where the special agent acts on behalf of the seller to market and sell the property, negotiate offers, and facilitate the transaction. Understanding the role of a special agent is crucial because it emphasizes the fiduciary duties owed to the seller, including loyalty, confidentiality, and full disclosure. Unlike a general agent, who may have broader responsibilities and can act in multiple capacities, a special agent's authority is confined to the specific task of managing the sale of the property. This distinction is important for both agents and clients in ensuring that expectations and responsibilities are clearly defined during the real estate transaction.

2. How does a market analysis differ from a property appraisal?

- A. A market analysis provides a formal estimation of value
- B. A property appraisal is based solely on market trends
- C. A market analysis evaluates market conditions for selling prices
- D. A property appraisal is less formal than a market analysis

A market analysis evaluates market conditions to determine realistic selling prices for properties in the current market. This process involves examining recent sales data, current listings, and market trends within a specific geographical area. The focus of a market analysis is to provide insights into how similar properties are priced, taking into consideration the peculiarities of the neighborhood and the overall economic environment that may affect property values. In contrast, a property appraisal is a more formal and systematic assessment conducted by a licensed appraiser. It aims to determine the specific value of a property based on various factors, including the property's condition, location, and comparable sales, but it is generally more detailed and follows standardized guidelines. The purpose of an appraisal is often for financing, insurance, or legal matters. This distinction clarifies that while both tools provide insights into property value, the market analysis is more practical and immediate for real estate professionals looking to set asking prices, whereas an appraisal provides a more formal value determination necessary for transactions requiring third-party validation of worth.

3. FIRREA was enacted in response to which of the following issues?

- A. High unemployment rates
- B. Financial institution failures
- C. Excessive taxation on bank profits
- D. Growth of unregulated mortgage markets

The enactment of FIRREA (Financial Institutions Reform, Recovery, and Enforcement Act) was primarily a response to significant financial institution failures that occurred during the savings and loan crisis in the 1980s and early 1990s. This crisis saw the collapse of numerous savings and loan associations, leading to a widespread loss of public confidence in financial institutions and necessitating federal intervention. FIRREA was designed to provide more robust regulatory oversight of thrifts and banks, to stabilize the savings and loan industry, and to address the problems linked to failed institutions. It established the Resolution Trust Corporation (RTC) to manage and resolve the assets of failed financial institutions, aimed to restore public trust, and reformed the regulatory framework governing banks and thrifts. The other options, while they may address real issues, do not encapsulate the primary motivation behind FIRREA. High unemployment rates and excessive taxation on bank profits were not the direct catalysts for this legislation. Similarly, although the growth of unregulated mortgage markets was a concern, it was not the focused issue driving the specific reforms implemented by FIRREA. Overall, financial institution failures were the critical concern that prompted the law's establishment and shaped its provisions.

4. Which of the following factors does NOT influence real estate market value?

- A. Location
- B. Economic conditions
- C. Personal preference of the seller
- D. Comparable sales

The personal preference of the seller does not influence the real estate market value because market value is determined by objective factors rather than subjective feelings or opinions. Market value is fundamentally shaped by elements such as location, economic conditions, and comparable sales. Location is critical, as it encompasses the desirability of the area, availability of amenities, and overall market demand. Economic conditions, including interest rates, employment levels, and the local economy, directly impact buying power and demand, thereby affecting value. Comparable sales provide essential benchmarks by showing recent sale prices of similar properties in the area, which real estate professionals use to assess a property's market value. In contrast, the seller's personal preferences—such as emotional attachments to the property or desired selling price—will not affect the objective market value that buyers are willing to pay based on these external factors. Hence, while a seller may have personal reasons for wanting a certain price, the actual market value is ultimately dictated by broader market dynamics.

5. Which of the following is considered a term of a real estate contract?

A. Duration of the contract

B. Price to be paid

C. Type of property

D. Location of the property

In a real estate contract, the price to be paid is a fundamental term, as it directly establishes the financial obligations of the parties involved. The price represents a significant aspect of the agreement because it delineates what the buyer is agreeing to pay the seller in exchange for the property. This specific detail is crucial for the enforceability of the contract and gives both parties a clear understanding of their financial expectations. While other aspects like the duration of the contract, the type of property, and the location of the property are also important elements of a real estate agreement, they are typically secondary to the price. The price not only reflects the value of the transaction but also influences other terms and conditions within the contract, such as financing options and contingencies. Therefore, focusing on the price as a term emphasizes its critical role in the foundation of a real estate contract.

6. When should borrowers prefer a 30-year mortgage over a 15-year mortgage?

A. When the mortgage rate exceeds the discount rate

B. When the 15-year rate is higher than the 30-year rate

C. When the discount rate exceeds the mortgage rate

D. When they plan to sell the home in 5 years

Borrowers should prefer a 30-year mortgage over a 15-year mortgage when the discount rate exceeds the mortgage rate because it enhances their financial leverage and affordability. The discount rate reflects the opportunity cost of capital or the return that they could earn on their investments. If this rate is higher than the mortgage rate, it suggests that the cost of borrowing is relatively low compared to potential investment returns. By opting for a 30-year mortgage, borrowers can benefit from lower monthly payments, allowing them to allocate excess funds to other investments with potentially higher returns. This can enable them to accumulate wealth more effectively while maintaining liquidity for different financial opportunities. Choosing a longer-term mortgage also presents the added advantage of having increased cash flow flexibility in monthly budgets. Borrowers may find it easier to manage their overall financial situation, as the lower monthly payment associated with a 30-year mortgage can make homeownership more accessible. This strategy is particularly beneficial in an economic environment where the expected returns on investments are higher than the cost of financing the mortgage, promoting better overall financial health.

7. What are the standard payment ratios for underwriting except for high LTV conventional home loans?

- A. 20% and 30%
- B. 25% and 35%
- C. 28% and 36%
- D. 30% and 40%

The standard payment ratios for underwriting typically refer to two key metrics: the front-end ratio and the back-end ratio. The front-end ratio generally considers the percentage of a borrower's gross monthly income that goes toward housing costs, including principal, interest, property taxes, and insurance. The back-end ratio takes into account all monthly debts, including housing costs and other obligations like car loans, credit card payments, and student loans. In most conventional underwriting guidelines, a front-end ratio of 28% and a back-end ratio of 36% is often used as a benchmark for assessing a borrower's ability to repay the loan. This means that no more than 28% of a borrower's gross income should go toward housing costs, while the total of all monthly debt obligations combined should not exceed 36%. These standards help lenders evaluate the financial stability of applicants by ensuring that they do not take on more debt than they can reasonably handle. Understanding these ratios is essential for both borrowers and real estate professionals, as they play a significant role in determining loan eligibility and affordability. These guidelines help to promote responsible lending practices and prevent borrowers from becoming over-leveraged.

8. What is the primary role of the primary mortgage market?

- A. Selling existing loans to investors
- B. Creating new loans between borrowers and lenders
- C. Providing housing assistance through government programs
- D. Offering insurance for mortgage loans

The primary mortgage market's main function is to create new loans between borrowers and lenders. This market facilitates direct transactions where lenders such as banks, credit unions, and mortgage companies provide funds to borrowers seeking to purchase or refinance real estate. In this process, the lender evaluates the borrower's creditworthiness and ability to repay the loan, sets the terms of the mortgage, and funds the loan directly to the borrower. This role is crucial because it establishes the first step in the mortgage financing process, allowing individuals and companies to access the necessary capital to acquire property. Once these loans are originated, they can be sold on the secondary mortgage market to investors, but that aspect pertains to a different market entirely. Therefore, the primary mortgage market primarily focuses on creating and servicing those initial loan agreements. The other options relate to other functions or segments of the real estate and mortgage financing landscape but do not accurately describe the foundational role of the primary mortgage market.

9. What are the basic responsibilities of a real estate salesperson?

- A. To evaluate property worth and set tax assessments
- B. To assist clients with transactions and provide market advice
- C. To manage rental properties for landlords
- D. To conduct home inspections and appraisals

The primary responsibilities of a real estate salesperson involve assisting clients with transactions and providing market advice. A real estate salesperson acts as a guiding figure throughout the buying or selling process, helping clients navigate the complexities of real estate transactions. This includes understanding the market conditions, suggesting appropriate pricing strategies, negotiating offers, and advising on the best actions to take to facilitate a successful transaction. Real estate salespersons utilize their knowledge of local market conditions to inform clients on the value of properties, which helps clients make informed decisions. Their role is crucial in fostering trust and clarity, as they provide personalized service tailored to individual client needs, aiding in a smoother and informed transaction process. While the other responsibilities mentioned in the other options are important in the broader scope of real estate, they are not typically the primary focus of a real estate salesperson. For example, evaluating property worth and setting tax assessments often falls under the duties of appraisers or tax assessors. Managing rental properties is usually the responsibility of property managers, and conducting home inspections and appraisals is a specialized task that requires different training and certification.

10. Which of the following is a key benefit of a listing agreement?

- A. It guarantees a sale within a set timeframe
- B. It establishes the agent's commission structure
- C. It provides financing details for the buyer
- D. It allows the seller to retain absolute control over property marketing

A key benefit of a listing agreement is that it establishes the agent's commission structure. This aspect is crucial because it clarifies how much the agent will earn for their services and sets expectations between the seller and the agent. By outlining the commission structure upfront, it helps prevent any misunderstandings or disputes later in the process. Additionally, having a clear commission agreement encourages the agent to work diligently to sell the property, as their compensation is directly tied to the success of the sale. While other elements associated with listing agreements are important, they do not capture the essence of the primary benefits related to the business relationship between an agent and a seller as directly as the commission structure. This clarity is fundamental to creating a professional framework for the real estate transaction, enabling both parties to have aligned incentives.