Due Diligence and Disclosure, First Edition Quizzes
for Online and CD-ROM versions

Instructions: Quizzes are open book. All answers are True or False, or Multiple Choice. Answer key is located on Page 12.

Quiz 1 — Chapters 1-6, Pages 9-37

___ 1. An interviewing sales agent should ask a prospective broker:
   a. how many sales the agent will likely close during his first year.
   b. the fee-sharing schedule offered by the broker.
   c. both a and b.
   d. neither a nor b

___ 2. The best time for a sales agent to renegotiate his share of the brokerage fees is:
   a. at the height of a booming market.
   b. during the slowdown following the boom.
   c. just prior to an upswing in sales.
   d. none of the above.

___ 3. The use of the term “selling agent” always means the selling agent is the buyer’s broker.

___ 4. A ___________________ relationship is created between a seller and the buyer’s agent when the seller pays the buyer’s agent’s fee.
   a. subagency
   b. dual agency
   c. both a and b
   d. neither a nor b

___ 5. During negotiations, a dual agent in a one-to-four residential property transaction may relay any information regarding terms of payment from the buyer to the seller without the buyer’s consent.

___ 6. A seller’s check made payable to a third party is still trust funds if it is handed to his listing agent for delivery to the third party.

___ 7. A broker must keep all advance cost accounting statements for at least:
   a. one year.
   b. three years.
   c. five years.
   d. ten years.

___ 8. A subagent is:
   a. the agent of the buyer.
   b. the agent of the seller.
   c. the agent of the buyer’s broker.
   d. none of the above.

___ 9. A Real Estate Settlement Procedures Act (RESPA) violation occurs when a finder refers multiple borrowers to a loan broker.

___ 10. Oral fee agreements between a broker and a finder are enforceable.
Quiz 2 — Chapters 7-11, Pages 38-78

___ 1. All records of an agent’s activities on behalf of a buyer during the listing period must be re-
tained for three years by:
   a. the agent.
   b. the buyer’s broker.
   c. the buyer.
   d. the seller’s broker.

___ 2. A listing agent’s visual inspection of a one-to-four unit residential property must include de-
fects:
   a. known to the listing agent.
   b. readily observable by the listing agent.
   c. both a and b.
   d. neither a nor b.

___ 3. An agent’s opinion regarding an income property’s performance is considered:
   a. a forecast, when based on income and expenses which actually occurred during the pre-
ceding 12-month period.
   b. a projection, when based on income and expenses which actually occurred during the pre-
ceding 12-month period.
   c. both a and b.
   d. neither a nor b.

___ 4. When the seller is exempt from filling out and delivering a Transfer Disclosure Statement
   (TDS) to a buyer, a listing agent is exempt from conducting a visual inspection on a one-to-
four unit residential property.

___ 5. The exemption of a foreclosing lender’s use of a TDS form at a trustee’s sale eliminate any
duty the broker has to disclose property defects to him.

___ 6. All automatic garage doors installed after January 1, 1993 are required to have an automatic
   reverse safety device.

___ 7. A construction permit issued after 1997 for a pool at a single-family residence requires the
   completed pool to have:
   a. an approved safety cover installed for the pool.
   b. all the doors of the residence providing access to the pool to be equipped with a self-
closing, self-latching device with a release mechanism placed no lower than 54 inches
   above the floor.
   c. all the doors within the residence which provide access to the pool to have exit alarms.
   d. any of the above.

___ 8. Existing water heaters must be anchored, braced and strapped to prevent displacement caused
   by an earthquake.

___ 9. If a water heater is marked as not being in compliance on a Transfer Disclosure Statement
   (TDS) form, a separate form must be filled out.

___ 10. A release mechanism is not required on security bars located in a bedroom with a door which
    opens to the exterior for escape purposes.
Quiz 3 — Chapters 12-14, Pages 79-99

___ 1. The use of a home inspection report by a listing agent does not relieve the agent from conducting a visual inspection.

___ 2. If a buyer discovers an error in a home inspection report regarding a defect which affects the value of the property, he has no more than _______ after the date of the inspection to file a legal action to recover any money losses.
   a. one year
   b. three years
   c. four years
   d. five years

___ 3. The best time for a buyer to order a home inspection report when a seller has failed to obtain one prior to entering into a purchase agreement is:
   a. on opening escrow.
   b. after the expiration of any contingent cancellation period.
   c. after escrow has closed.
   d. none of the above.

___ 4. A buyer should preserve his right in the purchase agreement to a final pre-closing property inspection.

___ 5. The disclosure of natural hazards known to the seller or his agent is required regardless of whether the statutory Natural Hazard Disclosure (NHD) statement is required on the sale of a property.

___ 6. An agent does not need to disclose any actual knowledge of natural hazards on the NHD statement if an expert is used to prepare an NHD report.

___ 7. On an in-escrow disclosure of a natural hazard, a buyer has:
   a. a three-day right of cancellation if delivery is by mail.
   b. a five-day right of cancellation if delivery is by hand.
   c. both a and b.
   d. neither a nor b.

___ 8. A seller’s agent has the duty to deliver the NHD statement to the buyer if the buyer does not have a broker.

___ 9. A NHD statement is unnecessary if a Transfer Disclosure Statement (TDS) is properly filled out and delivered to the buyer.

___ 10. Any flood zone lettered ______ is subject to mandatory flood insurance purchase requirements.
   a. A
   b. V
   c. both a and b
   d. neither a nor b

Quiz 4 — Chapters 15-18, Pages 100-116

___ 1. The listing agent should deliver, or confirm that the buyer’s agent has delivered, a copy of the California Department of Health and Safety’s environmental hazard booklet to the buyer.

___ 2. Notice of any environmental hazards must be given in writing and on a specific disclosure form.

___ 3. A seller has a duty to investigate whether his property contains toxic mold.
___ 4. Unless a seller agrees to eliminate any lead-based paint hazards, the seller does not have a duty to clean up the hazard.

___ 5. A buyer may waive the right to:
   a. the Federal Lead-based Paint (LBP) disclosure.
   b. the 10-day land evaluation period.
   c. both a and b.
   d. neither a nor b.

___ 6. The Federal LBP disclosure must be delivered to the buyer of a home which was acquired by the lender turned seller at a foreclosure sale.

___ 7. There are two types of HOA assessment charges, regular and extraordinary.

___ 8. Requesting a “list of defects” from the HOA will help the buyer and the buyer’s agent to assess the probability of future regular and/or special assessment increases.

___ 9. The ______ has the primary obligation to request a Notice of Assessment (NOA) and have it delivered to a prospective buyer.
   a. seller
   b. buyer
   c. buyer’s broker
   d. seller’s broker

___ 10. The NOA states:
   a. the interest rate of the bond.
   b. the last year in which an amortized installment will be paid.
   c. both a and b.
   d. neither a nor b.

Quiz 5 — Chapters 19-23, Pages 123-165

___ 1. A listing agent is required to inform the buyer of a prior occupant’s death on the property if it occurred less than three years before buyer submittal of a purchase offer.

___ 2. An agent who intentionally misrepresents or conceals a death on a property after a direct inquiry by a potential buyer is:
   a. a breach of the listing agent’s duty owed to the buyer to truthfully respond.
   b. a breach of the buyer’s agent’s agency duty owed the buyer since the agent is the buyer’s representative in the transaction.
   c. either a or b.
   d. neither a nor b.

___ 3. A buyer’s agent is not required to disclose any deaths on a property more than three years ago, regardless if the death affects the material value of the property.

___ 4. The Annual Property Operating Data (APOD) sheet the listing agent prepares must contain:
   a. current operations.
   b. the agent’s honest opinion about future income and expenses.
   c. either a or b.
   d. both a or b.

___ 5. Loan payments entered on the APOD should reflect:
   a. the principal payment.
   b. the interest payment.
   c. the monthly payment of any impounded funds.
   d. both a or b.
6. A buyer’s agent, in reviewing an APOD sheet from the listing agent with his buyer, should recommend that the buyer:
   a. review tenant files.
   b. confirm utility payments.
   c. confirm expenses of hazard insurance premiums.
   d. all of the above.

7. The use of a __________ for the purchase of one-to-four unit residential property when the seller will partially finance the sale, requires a written carryback disclosure form.
   a. land sales contract
   b. lease-option
   c. conventional purchase agreement form
   d. all of the above

8. An unlicensed buyer or seller, when not represented by a broker, can prepare and submit a carryback disclosure statement to all parties in a carryback transaction on one-to-four unit residential property.

9. In a buyer’s market, competition between buyers, back-up buyers and multi-offer auctions are common.

10. The buyer’s cost sheet is used by buyer’s brokers to inform a prospective buyer about the cost of acquiring a particular property.

**Quiz 6 — Chapters 24-26, Pages 166-187**

1. Contingency provisions made through oral agreement are generally unenforceable.

2. A written contingency should include any arrangements that will automatically cancel the agreement if the contingency is not satisfied or waived.

3. The primary user of contingency provisions in purchase agreements is the buyer or the buyer’s agent.

4. Under many contingency provisions, a buyer cannot exercise his right to cancel on the date scheduled for closing if the contingency is not fulfilled.

5. A contingency provision contained in a purchase agreement can be eliminated by:
   a. satisfaction of the contingency provision.
   b. waiver of the contingency provision.
   c. expiration of the contingency provision.
   d. any of the above.

6. Mutual-benefit contingencies may only be waived by mutual consent.

7. Personal satisfaction contingencies are identical to further-approval contingencies, except a third party is the one who approves or disapproves the contingency subject matter.

8. A retroactive return to the seller and buyer’s former, pre-contract positions is called a:
   a. release.
   b. restoration.
   c. rescission.
   d. none of the above.

9. There is no excuse for a breach of an agreement by a buyer or seller who refuses to hand escrow the instruments needed to close the transaction or otherwise comply with the escrow instructions.
10. A buyer or seller is excused from performing according to the purchase agreement when:
   a. a contingency provision exists and authorizes the buyer or seller to terminate the purchase agreement.
   b. the contingent event does not occur or is disapproved.
   c. the authorized party or the one benefiting from the contingency provision delivers a notice of cancellation prior to the expiration of his right to cancel.
   d. any of the above.

Quiz 7 — Chapters 27-29, Pages 188-209

1. A time-essence clause consistently produces litigation in courts over rights to money or ownership.

2. The three transactional facts that must exist for a buyer or seller to place the other in default are:
   a. a confirmation date that has passed, an unfulfilled condition and full performance of the party canceling.
   b. a fulfilled condition, an unexpired date and full performance of the party canceling.
   c. an extension date that has passed, a fulfilled condition and partial performance of the party canceling.
   d. none of the above.

3. In order for a buyer or seller to consider canceling a transaction:
   a. the other person must have defaulted on his completion of an activity.
   b. an event must have failed to occur.
   c. either a or b.
   d. both a and b.

4. The right to cancel under a time-essence situation is waived when a person does not immediately exercise it on the failure of the other person to perform.

5. Agency disputes arise during the _____________ period.
   a. marketing
   b. escrow
   c. post closing
   d. any of the above

6. A general release agreement may be used to waive unknown and unsuspected claims in a rescinded sales transaction.

7. A seller can interfere with a buyer’s acquisition of property by failing to return escrow instructions.

8. If a property resells after a purchase agreement breach for $850,000 and the original purchase price set in an unexpired right of first refusal provision was $550,000, the buyer holding the right of first refusal can recover:
   a. $850,000.
   b. $550,000.
   c. $480,000.
   d. $300,000.

9. For a buyer to recover consequential damages, the expenses incurred must be known to the seller as a natural and unavoidable result of the seller’s breach.

10. As a matter of “commercial reality”, escrow will not call for closing funds from either the buyer or the lender until escrow is in a position to close.
Quiz 8 — Chapters 30-32, Pages 210-234

____ 1. Before a seller can recover any losses, he must:
   a. account for his actual money losses caused by a buyer’s breach.
   b. demand the amount of a buyer’s deposit, regardless if he suffered any damages from the buyer’s breach.
   c. either a or b.
   d. neither a nor b.

____ 2. Actual money losses, called damages, can be:
   a. the dollar amount of any decline in a property’s fair market value from the date of the buyer’s breach.
   b. transactional costs a seller incurs while preparing to close under the breached purchase agreement.
   c. the dollar amount of any interest that would have been earned on all money and carryback note the seller was to receive.
   d. any of the above.

____ 3. Transactional expenses a seller may recover on a buyer’s breach are:
   a. escrow charges.
   b. payoff demands.
   c. both a and b.
   d. neither a nor b.

____ 4. A seller who decides to promptly resell after a breach by the buyer, does not have any duty to mitigate losses if he then tries to recover any damages.

____ 5. A seller may not make a demand for any amount of the good faith deposit at the time of a breach.

____ 6. If the amount of a good faith deposit exceeds ____ of the purchase price, a liquidated damages provision is presumed invalid.
   a. 1%
   b. 3%
   c. 5%
   d. 10%

____ 7. Without a liquidated damages provision in the purchase agreement, a seller is not entitled to recover his money losses caused by the buyer’s breach.

____ 8. An arbitration provision is always binding and final.

____ 9. If an arbitrator makes an error of fact or law, it is neither reviewable nor correctable when:
   a. the arbitrator exceeds his authorized powers.
   b. the arbitrator acts with fraud or corruption.
   c. the arbitrator disclosed grounds for his disqualification.
   d. the award was procured by corruption, fraud or other misconduct.

____ 10. An arbitrator exceeds his powers when he:
   a. enforces his awards.
   b. imposes fines for failure to comply with awards.
   c. both a and b.
   d. neither a nor b.
Quiz 9 — Chapters 33-35, Pages 235-256

___ 1. An individual can own property under more than one co-ownership vesting at the same time.
___ 2. _______ can vest title as community property.
   a. An unmarried widow
   b. A divorced woman
   c. A married couple
   d. A single man
___ 3. Profit-sharing, co-venturing co-owners who collectively own property are:
   a. tenants in common.
   b. tenants in partnership.
   c. joint tenants.
   d. tenants in severalty.
___ 4. A tenancy in common must be created by a single transfer.
___ 5. When the co-ownership of property is vested as joint tenants or community property with right of survivorship, the death of a co-owner:
   a. transfers his interest to his heirs.
   b. transfers his interest to the state.
   c. transfers his interest to his broker.
   d. extinguishes his interest in the real estate.
___ 6. A preliminary title report is:
   a. a representation of the condition of title.
   b. an abstract of title.
   c. an offer to issue a title policy.
   d. none of the above.
___ 7. All title insurance policies will not cover losses incurred by the insured due to:
   a. use ordinances.
   b. unrecorded claims unknown to the title company, but known to the insured.
   c. eminent domain.
   d. any of the above.
___ 8. A standard California Land Title Association (CLTA) policy does not provide protection for unrecorded encumbrances or claims to title.
___ 9. Which title insurance policy provides the most coverage?
   a. ALTA-R
   b. CLTA
   c. ALTA homeowner’s
   d. ALTA owner’s
___ 10. A lender or seller who carries back a note and trust deed for part of the sales price cannot be named as an additional insured on a CLTA standard JP policy.

Quiz 10 — Chapters 36-39, Pages 257-303

___ 1. To counter an unacceptable offer to purchase, a seller may use:
   a. a new purchase agreement form.
   b. counteroffer form.
   c. the change and initial procedure.
   d. any of the above.
___ 2. A listing agent can alter the contents of an original document after it has been signed.
3. An equity purchase (EP) agreement must be in the same language used in negotiations with the seller-in-foreclosure.

4. Under EP laws, ___________ are business days.
   a. Saturdays.
   b. most state holidays.
   c. both a and b.
   d. neither a nor b.

5. If a buyer’s agent fails to deliver an EP disclosure statement to the seller-in-foreclosure, the EP agreement is:
   a. void.
   b. voidable by the seller-in-foreclosure.
   c. voidable by the buyer.
   d. none of the above.

6. To begin an analysis of income-producing property, a buyer’s agent should ask the listing agent to produce:
   a. a copy of schedule “B”.
   b. a rent roll spreadsheet.
   c. an occupancy history.
   d. all of the above.

7. An attorney fee provision:
   a. can be used to cancel a transaction when a buyer or broker has not complied with the purchase agreement.
   b. tends to promote litigation and inhibit contracting.
   c. waives the buyer’s and seller’s right to a fair and correct decision by trial and appeal.
   d. none of the above.

8. In an option agreement, a prospective buyer is:
   a. an optionor.
   b. an optionee.
   c. offeror.
   d. offeree.

9. A particular manner for exercising an option must be specified in an option agreement.

10. A recorded option does not constitute constructive notice of a buyer’s option rights if the option has been expired more than six months without prior recording of an exercise of the option.

Quiz 11 — Chapters 40-41, Pages 304-314

1. In order to meet his agency duty, a listing agent should:
   a. disclose the full extent of his tax knowledge.
   b. advise the seller to seek the advice of a tax professional.
   c. determine whether the tax consequences will affect his client’s decision.
   d. all of the above.

2. If a listing agent is dealing with ___________, he has no duty to disclose his knowledge of possible tax consequences.
   a. commercial property
   b. a vacant lot
   c. one-to-four residential dwellings
   d. all of the above.
3. According to a statutory exception, an agent is not required to respond honestly and to the best of his knowledge on a direct inquiry from a seller or buyer.

4. The best way for an agent to shift a client’s reliance on the agent’s opinion of tax consequences, is to insert a ____________ in the purchase offer.
   a. a release of responsibility clause
   b. voluntary disclosure provision
   c. a further-approval contingency
   d. any of the above

5. Agents cannot receive a second fee for negotiating the purchase of replacement property and coordinating the transfer of funds in a §1031 transaction.

6. Only loans secured by the ____________ come under the home loan interest deduction rules.
   a. first home
   b. second home
   c. both a and b
   d. neither a nor b

7. Interest paid on an equity loan secured by a first residence is not deductible if the loan’s net proceeds were used for business purposes.

8. A married person who files separately can deduct interest on an equity loan with a principal amount of up to:
   a. $25,000.
   b. $50,000.
   c. $100,000.
   d. $500,000.

9. A homeowner can deduct the interest on a purchase loan encumbering a second home that is rented out if the owner occupies the home for more than _____ days or ____% of the number of days the residence was rented.
   a. 3, 2
   b. 12, 15
   c. 10, 14
   d. 14, 10

10. A homeowner can deduct interest on a home loan only if the interest has accrued and been paid.

Quiz 12 — Chapters 42-44, Pages 315-331

1. The short formula for profit is:
   a. basis minus price equals profit.
   b. price minus basis equals profit.
   c. basis multiplied by price equals profit.
   d. price multiplied by basis equals profit.

2. To qualify a residence for a <@167>121 profit exclusion, the seller must own and occupy the residence sold for at least __________ prior to closing the sale.
   a. one of the five years
   b. two of the five years
   c. three of the five years
   d. four of the five years
3. If a homeowner does not qualify for the two-year ownership and occupancy requirements of the §121 profit exclusion, he can still take a partial exclusion for the following reason:
   a. relocation to be closer to his girlfriend.
   b. health problems caused by the environment surrounding the home.
   c. relocation because his job demanded it.
   d. b or c only.

4. A 1099-S form does not need to be filed when the profit from the sales price of a seller’s principal residence is less than:
   a. $100,000 per person.
   b. $250,000 per person.
   c. $500,000 per person.
   d. none of the above.

5. Escrow must keep a seller’s principal residence exclusion certification on file for at least __________ following the sale.
   a. one year
   b. two years
   c. three years
   d. four years

6. The California Franchise Tax Board (FTB) requires all buyers to withhold 3.33% of the sales price and forward it to the FTB when the transaction does not qualify for an exemption from withholding.

7. A buyer must retain a seller’s declaration of citizenship for five years.

8. A foreign seller is considered a U.S. resident exempt from federal withholding if he was present in the country for at least 31 days during the calendar year of the sale.

9. Transactions involving foreign sellers are exempt from federal withholding by the buyer if the property is purchased for a price of $300,000 or less and used as a residence by the buyer.

10. When a nonresident foreign seller submits the application for the withholding certificate to the Internal Revenue Service (IRS), the buyer does not need to be notified.
Answer References
for Online and CD-ROM versions

The following are the answers to the quizzes for *Due Diligence and Disclosures, First Edition*, and the page numbers where they are located.

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