

IMPORTANT NOTE: The Salesperson and Broker examination format has changed since the *Reference Book* was published in 2010. Please refer to [Salesperson Examination Content](#) and [Broker Examination Content](#) for current information. (7/20/12)

2 The Real Estate License Examinations

The law requires that the Department of Real Estate (DRE) ascertain, by written examination, the competency of a prospective real estate licensee. DRE cannot waive this examination requirement.

This chapter discusses the examination process in general, details the scope of the examinations and includes practice questions.

A pamphlet titled *Instructions to License Applicants* provides detailed information about examination and licensing procedures. Interested persons may obtain this pamphlet and an application to take an examination by calling or writing any DRE office.

Additional information, forms, publications, and other items of interest to examinees, license applicants and licensees is available on the Department of Real Estate (DRE) web site www.dre.ca.gov under **Examinees and Licensees**.

Scope of Examination

Business and Professions Code Section 10153 requires that the real estate examinations test for the following:

- knowledge of the English language, including reading, writing and spelling; and of arithmetical computations used in real estate and business opportunity practices;
- understanding of the principles of real estate and business opportunity conveyancing; the general purposes and general legal effect of agency contracts, deposit receipts, deeds, mortgages, deeds of trust, chattel mortgages, bills of sale, land contracts of sale and leases; and of the principles of business and land economics and appraisals; and
- understanding of the obligations between principal and agent; of the principles of real estate and business opportunity practice and the canons of business ethics pertaining thereto; and of the Real Estate Law, the Subdivided Lands Law and the Commissioner's Regulations.

Preparing for an Exam

Unless a prospective licensee has had experience with the various types of real estate transactions and has *thorough* knowledge of real estate fundamentals, including the obligations of an agent and the laws and regulations governing an agent's activities, it is suggested that *serious* study be undertaken prior to taking the examination. Even persons well grounded in these areas will find a review extremely valuable.

This book and DRE's *Real Estate Law* book are useful study tools. In addition, public libraries and bookstores have textbooks on California real estate law, practice, finance, economics and appraisal. Real estate courses are available at colleges and private vocational schools.

Exam Construction

DRE's testing program follows guidelines set by the State Personnel Board and other test authorities. Periodically, DRE uses research studies to update the test specifications. Because there are differences in the level and amount of knowledge required of salespersons and brokers, the exams differ in their emphasis and difficulty.

Examination Weighting

DRE attempts to place proper emphasis on the content areas of the examinations. The exact weighting for each subject area contained in the real estate broker and real estate salesperson license examination is included in the **current** edition of DRE's pamphlet *Instructions to License Applicants*. This publication is also available online at the DRE web site at www.dre.ca.gov.

**REAL ESTATE SALESPERSON AND REAL ESTATE BROKER LICENSING EXAMINATION
OUTLINE****Area 1 - Property Ownership and Land Use Controls and Regulations**

- Classes of Property
- Property Characteristics
- Encumbrances
- Types of Ownership
- Descriptions of Property
- Government Rights in Land
- Public Controls
- Environmental Hazards and Regulations
- Private Controls
- Water Rights
- Special Categories of Land

Area 2 - Laws of Agency

- Law, Definition & Nature of Agency Relationships, Types of Agencies & Agents
- Creation of Agency & Agency Agreements
- Responsibilities of Agent to Seller/Buyer as Principal
- Disclosure of Agency
- Disclosure of Acting as Principal or Other Interest
- Termination of Agency
- Commission and Fees

Area 3 - Valuation and Market Analysis

- Value
- Methods of Estimating Value

Area 4 - Financing

- General Concepts
- Types of Loans
- Sources of Financing
- How to Deal with Lenders
- Government Programs
- Mortgages/Deeds of Trust/Notes
- Financing/Credit Laws
- Loan Brokerage

Area 5 – Laws of Agency

- Title Insurance
- Deeds
- Escrow
- Reports
- Tax Aspects
- Special Processes

Area 6 – Practice of Real Estate and Mandated Disclosures

- Trust Account Management
- Fair Housing Laws

- Truth in Advertising
- Record Keeping Requirements
- Agency Supervision
- Permitted Activities of Unlicensed Sales Assistants
- DRE Jurisdiction and Disciplinary Actions
- Licensing and Continuing Education Requirements and Procedures
- California Real Estate Recovery Fund
- General Ethics
- Technology
- Property Management/Landlord-Tenant Rights
- Commercial/Industrial/Income Properties
- Specialty Areas
- Transfer Disclosure Statement
- Natural Hazard Disclosure Statements
- Material Facts Affecting Property Value
- Need for Inspection and Obtaining/Verifying Information

Area 7 - Contracts

- General
- Listing Agreements
- Buyer/Broker Agreements
- Offers/Purchase Contracts
- Counteroffers/Multiple Counteroffers
- Leases
- Agreements
- Promissory Notes/Securities

Exam Rules - Exam Subversion

The typical rules for examinations apply: conversation is not permitted; the use of cell phones, PDAs, notes or references to texts are strictly forbidden; dishonest practice of any kind will result in a nonpassing grade and may be grounds for denying future examinations.

DRE may deny, suspend, revoke or restrict the license of an applicant or licensee who subverts or attempts to subvert a licensing examination. Conduct which constitutes subversion includes but is not limited to the following:

1. Removing exam material from a test site.
2. Reproducing exam material without authorization.
3. Using paid examinees for the purpose of reconstructing an examination.
4. Using improperly obtained test questions to prepare persons for examination.
5. Selling, distributing, or buying exam material.
6. Cheating during an exam.
7. Possessing unauthorized equipment or information during an examination.
8. Impersonating an examinee or having an impersonator take an examination.

Materials

Only the examination booklet, the answer sheet, a special pencil, and silent, battery-operated, pocket-size, electronic calculator without a print-out capability or an alphabetic keyboard are allowed on an examinee's desk, along with the single page of scratch paper (for arithmetical calculations) which DRE will supply and which MUST be turned in with the answer sheet and examination booklet.

Question Construction

Test items are phrased so that they measure the applicant's knowledge without making him or her wonder about their meaning. The questions must not be too difficult, too easy, unimportant or inappropriate for any reason. No

question is meant to be a trick or catch question. Words are used according to their commonly accepted meanings.

Multiple Choice Exam

All test items in the real estate exams are multiple-choice. While the examinee may feel that more than one answer has some element of correctness, the examinee must be able to eliminate the incorrect responses and choose the *correct* answer.

Q and A Analysis

The following analyses illustrate the proper approach to exam questions:

Question:

Under no circumstances may a broker:

- (a) receive a commission from both buyer and seller
- (b) appoint a subagent
- (c) misrepresent material facts
- (d) sell the principal's property to a relative.

Analysis:

- (a) *is incorrect.* A broker may receive a commission from both parties provided both buyer and seller have knowledge of the arrangement.
- (b) *is incorrect.* A broker may get prior consent from the principal to appoint other brokers as subagents to cooperate in selling the property.
- (c) **is correct.** A material misrepresentation is a violation of law.
- (d) *is incorrect.* The broker may sell to any purchaser provided the principal has full knowledge.

Question:

A valid bill of sale must contain:

- (a) a date
- (b) an acknowledgment
- (c) the seller's signature
- (d) a verification.

Analysis:

- (a) *is incorrect.* Although a date is advisable, it is not required.
- (b) *is incorrect.* The law does not require an acknowledgment.
- (c) **is correct.** A bill of sale is an instrument which has been executed (signed) and delivered to convey title to personal property.
- (d) *is incorrect.* Verification means to confirm the correctness of an instrument by an affidavit or oath. Verification may be desirable but not required.

Examinees should be alert for questions phrased in the negative: e.g., "All of the following statements are correct, *except*;" or, "which of the following are *not* ...?" In the following sample question, three of the responses would be correct. However, the answer called for is the *incorrect* statement.

Question:

A valid deed must contain all of the following, *except*:

- (a) the signature of the grantor
- (b) a granting clause
- (c) an adequate description of the property
- (d) an acknowledgment of the grantor's signature.

Analysis:

- (a) *is a correct statement.* The grantor is the person who conveys title to another and without the grantor's signature title will not pass.
- (b) *is a correct statement.* The granting clause is necessary to evidence the intent of the grantor.

- (c) *is a correct statement.* The property being transferred must be described so the grantor knows exactly what property is being conveyed to the grantee.
- (d) **is the incorrect statement.** An acknowledgment is necessary for recordation but is not required to make the deed valid.

Sample Multiple Choice Items

The following are examples of the types of questions that appear in the examination. No answers are provided. The results of practice should be checked against appropriate sources.

1. Judgment liens differ from mechanics' liens in that:
 - (a) mechanics' liens are created by statute
 - (b) mechanics' liens could take priority earlier than the date they are recorded
 - (c) judgment liens are voluntary liens
 - (d) judgment liens are not enforceable until recorded.

2. Tax delinquent real property not redeemed by the owner during the five-year statutory redemption period is deeded to the:
 - (a) city
 - (b) county
 - (c) state
 - (d) school district.

3. The maximum commission a broker may charge a seller for the sale of residential income property is:
 - (a) set forth in the Real Estate Law
 - (b) negotiable
 - (c) no more than 10 percent of the total sales price
 - (d) determined by local custom.

4. In a typical percentage lease, rent is calculated as a percentage of:
 - (a) assets of the lessee's business
 - (b) net sales of the lessee's business
 - (c) gross sales of the lessee's business
 - (d) net taxable income of the lessee's business.

5. The position of trust assumed by the broker as an agent for a principal is described most accurately as:
 - (a) a gratuitous relationship
 - (b) a trustor relationship
 - (c) a fiduciary relationship
 - (d) an employment relationship.

6. The Federal Housing Administration's role in financing the purchase of real property is to:
 - (a) act as the lender of funds
 - (b) insure loans made by approved lenders
 - (c) purchase specific trust deeds
 - (d) do all of the above.

7. Which of the following best defines "encumbrance"?
 - (a) The degree, quantity, nature, and extent of interest which a person has in real property
 - (b) The use of property by a debtor as security for a debt
 - (c) Any action taken relative to real property other than acquiring title

- (d) Anything which affects or limits the title to real property.
8. Which item would an appraiser use to arrive at a net income for capitalization purposes?
- (a) cost of loans against the property
 - (b) allowance for rent loss and vacancies
 - (c) federal income tax
 - (d) reserve for appreciation of buildings.
9. A clause in a trust deed stating that the rights of the beneficiary shall be secondary to a subsequent trust deed is called:
- (a) an acceleration clause
 - (b) an alienation clause
 - (c) a subdivision clause
 - (d) a subordination clause.
10. Private restrictions on the use of land may be created by:
- (a) private land use controls
 - (b) written agreement
 - (c) general plan restrictions in subdivisions
 - (d) all of the above.
11. A listing agreement must contain the elements of a contract, which includes:
- (a) competent parties
 - (b) unlawful object
 - (c) unspecified consideration
 - (d) being notarized by a notary public.
12. A quitclaim deed conveys only the present right, title and interest of the:
- (a) grantor
 - (b) servient tenement
 - (c) grantee
 - (d) property.
13. If a \$218,400 investment in real estate generates gross annual earnings of 15%, the gross monthly return most nearly is:
- (a) \$3,276
 - (b) \$2,820
 - (c) \$2,740
 - (d) \$2,548.
14. You are a California real estate broker. A prospect is referred to you by an out-of-state broker and you consummate a sale by you. You want to split your commission with the cooperating broker. Under the California Real Estate Law:
- (a) you may pay a commission to a broker of another state
 - (b) you cannot divide a commission with a broker of another state
 - (c) you can pay a commission to a broker of another state only if he is also licensed in California
 - (d) none of the above.
15. Edison sold his land with an easement appurtenant for a road. The deed to the buyer contained an adequate description of the land, but it failed to make reference to the easement. The buyer:
- (a) takes title to landlocked property

- (b) has a clouded title
 - (c) forfeits the easement to the servient tenement
 - (d) has the same right to the easement as the seller did.
16. If the broker, while acting as agent in a sale of real property, misrepresents the principal's property to a buyer, the broker may cause the principal to be subjected to:
- (a) rescission of the sale by the buyer
 - (b) a court action for damages by the buyer
 - (c) tort liability
 - (d) any of the above.
17. An instrument which usually transfers possession of real property but does not transfer ownership is:
- (a) a trust deed
 - (b) a sublease
 - (c) a security agreement
 - (d) an easement grant.
18. As a matter of practice, the escrow holder is authorized to:
- (a) order the termite inspection and authorize any corrective repairs to be made
 - (b) advise buyers on best financing available in the market place
 - (c) amend the commission instruction form at the request of the listing broker
 - (d) call for funding of buyers loan proceeds.
19. Community property is property owned by:
- (a) churches
 - (b) husband and wife
 - (c) the municipality
 - (d) the community.
20. An apartment complex cost \$1,800,000. It brings in a net income of \$12,000 per month. The owner is making what percentage of return on the investment?
- (a) 7%
 - (b) 8%
 - (c) 11%
 - (d) none of the above.
21. A person holding title to real property in severalty would most likely have:
- (a) a life estate
 - (b) an estate for years
 - (c) ownership in common with others
 - (d) sole ownership.
22. Under the Federal Truth-in-Lending Law, two of the most critical facts that must be disclosed to buyers or borrowers are:
- (a) duration of the contract and discount rate
 - (b) finance charge and annual percentage rate
 - (c) carrying charge and advertising expense
 - (d) installment payments and cancellation rights.

23. Appraisals of single-family dwellings are usually based on:
- (a) capitalization of rental value
 - (b) asking prices of comparable houses
 - (c) sales prices of comparable properties
 - (d) the assessed valuations.
24. A contract based on an illegal consideration is:
- (a) valid
 - (b) void
 - (c) legal
 - (d) enforceable.
25. The California “standard form” policy of title insurance on real property insures against loss occasioned by:
- (a) a forgery in the chain of recorded title
 - (b) liens or encumbrances not disclosed by official records
 - (c) rights of parties in possession of the property
 - (d) actions of governmental agencies regulating the use or occupancy of the property.
26. A broker acting in a fiduciary capacity representing a client in dealings with third persons in selling, buying from or exchanging real property is said to be bound by the laws of:
- (a) limitations
 - (b) trusteeship
 - (c) agency
 - (d) power of attorney.
27. All persons are protected by the 1968 Federal Fair Housing Act and have a right to bring suit when:
- (a) acts of discrimination deny them the opportunity to have neighbors who are members of minority groups
 - (b) they are evicted by a landlord for having minority guests in their home
 - (c) acts of discrimination caused their loan for purchase of a residence to be denied
 - (d) any of the above occurs.
28. The chief distinguishing characteristic of real estate, when compared to personal property, is that it:
- (a) depreciates over time
 - (b) is a capital asset
 - (c) can be held in severalty or tenancy in common
 - (d) is immovable.
29. Copies of all listings, deposit receipts, canceled checks, and trust records must be retained by a licensed real estate broker for:
- (a) one year
 - (b) two years
 - (c) three years
 - (d) five years.
30. If a contingency is put into a contract, it is important to be specific about the:
- (a) nature of the contingency
 - (b) duration of the contingency

- (c) method by which the contingency will be removed
 - (d) all of the above.
31. When a loan is fully amortized by equal monthly payments of principal and interest, the amount applied to principal:
- (a) and interest remains constant
 - (b) decreases while the interest payment increases
 - (c) increases while the interest payment decreases
 - (d) increases by a constant amount.
32. Joint ownership of real property by two or more persons, each of whom has an undivided interest (not necessarily equal) without right of survivorship, is
- (a) a tenancy in partnership
 - (b) a tenancy by the entireties
 - (c) a tenancy in common
 - (d) a leasehold tenancy.
33. A “loss in value from any cause” is a common definition of:
- (a) economic obsolescence
 - (b) depreciation
 - (c) principle of contribution
 - (d) adverse leverage.
34. Which of the following is a lien?
- (a) an easement
 - (b) a zoning restriction
 - (c) an attachment
 - (d) all of the above are liens.
35. Of the following, which is the most important reason for a broker to maintain a trust fund account in addition to a regular business account?
- (a) to provide a means of control over the destiny of transactions being negotiated
 - (b) it is easier from an accounting point of view
 - (c) the bank is responsible for any loss to the trust fund account resulting from embezzlement
 - (d) the consequence which could occur should legal action be taken against the broker.
36. If an appraiser finds that the fair rent for a vacant parcel of land is \$1,400 per month and the interest rate is 11%, what is the approximate indicated land value?
- (a) \$109,090
 - (b) \$138,560
 - (c) \$184,800
 - (d) \$210,000.
37. Economic obsolescence could result from each of the following, *except*:
- (a) new zoning laws
 - (b) a city’s leading industry moving out
 - (c) misplacement of improvements
 - (d) an outdated kitchen.

38. As a real estate broker, you negotiate the sale of a residence. The building appears to be sound and therefore, no termite inspection is ordered. However, before the escrow closes, you discover what you consider to be evidence of termite infestation in a closet. Under these circumstances, you should promptly disclose this information to:
- (a) no one, as you might be mistaken and disclosure could “stop the sale” for which you would be liable for the breach of contract
 - (b) first and only to the seller, as it is the seller’s responsibility to take whatever action is deemed appropriate
 - (c) both buyer and seller for the appropriate resolution
 - (d) the Structural Pest Control Board so that an immediate inspection can be on record and the discrepancies corrected by a licensed pest control contractor.
39. A subordination clause in a trust deed may:
- (a) permit the obligation to be paid off ahead of schedule
 - (b) prohibit the trustor from making an additional loan against the property before the trust deed is paid off
 - (c) allow for periodic renegotiation and adjustment in the terms of the obligation
 - (d) give priority to liens subsequently recorded against the property.
40. Which of the following factors is least important in the appraisal of an old single-family residence?
- (a) The purpose of the appraisal
 - (b) Adaptability of the building to the site
 - (c) Physical condition of the building
 - (d) Original cost of the construction.
41. A balloon loan is most nearly:
- (a) a fully amortized loan
 - (b) a partially amortized loan
 - (c) a self-liquidating loan
 - (d) a standing loan.
42. A contractor obtained a construction loan, and the loan funds are to be released in a series of progress payments. Most lenders disburse the last payment when the:
- (a) building is completed
 - (b) notice of completion is filed
 - (c) buyer approves the construction
 - (d) period to file a lien has expired.
43. A grant deed is recorded in the county where the:
- (a) escrow and title company’s place of business is
 - (b) seller permanently resides
 - (c) buyer permanently resides
 - (d) property is situated.
44. Brown purchased a \$14,000 note secured by a second mortgage for investment purposes. The seller allowed a 15% discount. The note provided for monthly payments of \$1,220 including interest at 9% per annum over a one-year term. Brown received full payment on the above terms. The yield on Brown’s investment, expressed as a percentage, is:
- (a) 23%

- (b) 31%
 - (c) 34%
 - (d) 40%.
45. The covenant of quiet enjoyment most directly relates to:
- (a) nuisances maintained on adjoining property
 - (b) possession of real property
 - (c) title to real property
 - (d) all of the above.
46. An interest in real property may be acquired by either prescription or by adverse possession. The interest resulting from prescription is:
- (a) the right to use another's land
 - (b) a possessory title
 - (c) an equitable interest
 - (d) a private grant.
47. Generally, the taking of private land by governmental bodies for public use is governed by due process of law and is accomplished through:
- (a) exercise of the police power
 - (b) eminent domain
 - (c) reverter
 - (d) escheat.
48. Governmental land use planning and zoning are important examples of:
- (a) exercise of eminent domain
 - (b) use of police power
 - (c) deed restrictions
 - (d) encumbrances.
49. Most contracts between a seller and broker for the purpose of selling real estate are in the form of:
- (a) a general power of attorney
 - (b) a novation
 - (c) a written agreement
 - (d) an assignment.
50. In arriving at an effective gross income figure, an appraiser of rental property makes a deduction for:
- (a) real property taxes
 - (b) repairs
 - (c) vacancy
 - (d) depreciation.