

Chapter 22 Questions

Closing the Real Estate Transaction

1. Norman agrees to purchase Gusela's property for \$185,500. He deposits the purchase price with Vincent, and Gusela deposits a warranty deed for the property with Vincent. Vincent is instructed to record the deed in Norman's favor when Gusela shows good title to the property. Vincent is also instructed to pay the purchase price, less some agreed prorations, to Gusela when Norman has received the deed. This transaction is called
 - a. provisional sale.
 - b. escrow.
 - c. installment sale.
 - d. option.

2. At the closing, Frank's attorney informed him that he would be giving credit to Vito, the buyer, for certain accrued items. These items represent
 - a. bills related to the real estate that have already been paid by the seller.
 - b. bills related to the real estate that have not been paid as of the time of the closing.
 - c. all of the seller's outstanding bills.
 - d. all of the buyer's outstanding bills.

3. The Real Estate Settlement Procedures Act (RESPA) applies to the activities of
 - a. licensed real estate brokers when selling commercial and industrial properties.
 - b. licensed securities salespeople when selling limited partnership interests.
 - c. lenders financing the purchase of residential properties.
 - d. Fannie Mae and Freddie Mac when purchasing residential mortgages.

4. The details of a closing are always governed by
 - a. the wishes of the seller as expressed orally.
 - b. the wishes of the buyer as expressed orally.
 - c. the escrow instructions that both the seller and the buyer sign.
 - d. the terms of the properly executed purchase contract.

5. At closing, the listing broker's commission generally appears as a
 - a. credit to the seller.
 - b. debit to the seller.
 - c. credit to the buyer.
 - d. debit to the buyer.

6. The condition of the seller's title is generally determined from a(an)
 - a. title commitment or abstract of title
 - b. physical inspection of the property by the buyer.
 - c. closing statement prepared by an escrow agent.
 - d. escrow report prepared by an attorney.

7. The Real Estate Settlement Procedures Act (RESPA) provides that
 - a. all real estate purchasers must receive their closing statements.
 - b. real estate advertisements must include the annual percentage rate, including all charges.
 - c. the borrower must be given an estimate of the closing costs before the time of the closing.
 - d. real estate syndicates must comply with the disclosures required by "blue sky" laws.

8. Accrued interest on an assumed mortgage loan is entered on the closing statement as a
 - a. credit to the seller and a debit to the buyer.
 - b. debit to the seller and a credit to the buyer.
 - c. credit to both the seller and the buyer.
 - d. debit to both the seller and the buyer.

9. As provided in a valid purchase contract, the real estate transaction must be closed. Closing requires all the following *EXCEPT*
 - a. that the seller clear the title so that the condition of the title complies with the terms of the contract.
 - b. that the purchaser pay the balance of the purchase price to the seller.
 - c. that the broker be present to receive any commission.
 - d. that the seller deliver the deed to the purchaser.

10. The process by which expenses are handled at settlement of a real estate transaction so that both the buyer and the seller pay their respective portions of property charges is called
 - a. assessment.
 - b. proration.
 - c. balancing.
 - d. reconciliation.

11. All of the following items are usually prorated between the buyer and seller at closing EXCEPT
 - a. Recording charges
 - b. Real estate taxes
 - c. Rents
 - d. Utility bills

12. The Real Estate Settlement Procedures Act (RESPA) applies in a loan assumption if the
 - a. terms of the assumed loan are modified by the lender.
 - b. lender charges less than \$50 for the assumption.
 - c. buyer must be approved by the lender for the assumption to occur.
 - d. seller does *NOT* want to be liable for the loan in the future.

13. The principal balance on an assumed mortgage loan is entered on the closing statement as a
 - a. credit to the seller and a debit to the buyer.
 - b. debit to the seller and a credit to the buyer.
 - c. credit to both the seller and the buyer.
 - d. debit to both the seller and the buyer.

14. RESPA (The Real Estate Settlement Procedures Act) is a federal statute administered by the
 - a. Federal Trade Commission.
 - b. Department of Housing and Urban Development.
 - c. Office of the U. S. Attorney General.
 - d. Department of Veteran Affairs.

15. The closing statement involves debits and credits to the parties in the transaction. A debit is a(n)
- refund.
 - charge.
 - adjustment for an expense paid outside of closing.
 - proration.
16. The Real Estate Settlement Procedures Act requires
- that the closing of a transaction be held within 90 days of the date of the sales contract.
 - that lenders keep no more than approximately 2 months of escrow payments as a cushion.
 - the lender to disclose the annual percentage rate the borrower will be paying.
 - that lenders follow certain advertising procedures when advertising credit.
17. The Real Estate Settlement Procedures Act states all of the following EXCEPT
- lenders must provide borrowers with a good-faith estimate of closing costs.
 - a uniform settlement form must be used at loan closings.
 - the borrower may cancel the loan transaction within three days after settlement.
 - a special information booklet with information about settlement costs be given to applicants.
18. An example of a *kickback* that is prohibited by RESPA is
- a fee paid by Broker A to Broker B for referring a buyer to Broker A.
 - a share of the commission paid by Broker A to her salesperson.
 - a fee paid by a surveyor to a broker for referring a property to be surveyed.
 - a flower arrangement that a salesperson sends to the buyer as a housewarming gift.

19. Services offered by *computerized loan origination* (CLO) systems are permitted under RESPA as long as certain conditions are met. Which of the following are prohibited under RESPA?
- a. brokers may charge whatever fees they determine are fair for the service.
 - b. only borrowers may pay fees charged for the CLO service.
 - c. mortgage brokers may pay a referral fee for the mortgage loan.
 - d. brokers are required to disclose the existence of loan products other than those presented by their CLO.
20. In a closing statement, a prepaid item is a(n)
- a. item paid in advance by buyer
 - b. item that is prepaid by the seller
 - c. accrued expense.
 - d. a charge to the seller
21. Real estate firms are often affiliated with title insurance companies or mortgage brokers. These business arrangements are permitted by RESPA as long as
- a. consumers are unaware of these arrangements.
 - b. consumers are required to use the services of the affiliated companies.
 - c. companies pay referral fees between them.
 - d. companies make disclosure to the consumer of their relationship with one another.

Answer the following questions based on the information provided concerning the closing of a real estate transaction.

Closing Problem 1

Purchase price: \$125,000 cash

Earnest money: \$1,000

Commission rate: 7 percent

Revenue stamps to be paid by seller: \$125

Real estate taxes: \$1,600 paid in full for the current year

Title insurance policy to be paid by seller: \$250

Deed recording fee: \$20

Escrow fee: \$350

Existing mortgage loan balance: \$29,450 including credit for the reserve account

Closing date: July 31st

Prorate using a 30-day month and a 360-day year

Prorate the taxes as of the close of escrow

Split the escrow fee 50-50 between the parties

1. What amount is the buyer debited for the real estate taxes?
 - a. \$666.67
 - b. \$1,600
 - c. \$933.33
 - d. \$133.33

2. What amount is the seller debited for the broker's commission?
 - a. \$1,785
 - b. \$8,088
 - c. \$8,750
 - d. \$1,680

3. What amount of the escrow fee will the buyer pay?
 - a. \$350
 - b. \$175
 - c. \$0
 - d. \$168

4. What is the total amount the buyer is required to bring to closing?
 - a. \$124,861.67
 - b. \$124,666.67
 - c. \$124,841.67
 - d. \$125,861.67

5. What are the seller's proceeds from the sale?
 - a. \$86,395.83
 - b. \$86,916.67
 - c. \$95,550
 - d. \$85,833.34

Closing Problem 2

Purchase price: \$278,000 cash

Earnest money: \$5,000

Commission rate: 7 percent split 50-50 between two brokers

Appraisal fee: \$350

Existing mortgage loan balance: \$113,576.82

Title insurance policy to be paid by seller: \$550

Attorney fee: \$450

Deed recording fee: \$25

Termite and wood infestation report to be paid by seller: \$200

Real estate taxes: \$1,950 paid in full through December 31st

Closing date: August 31st

Prorate using the actual number of days in the month and the year

Split the closing fee 50-50 between the parties

1. What is the total real estate commission on this transaction?
 - a. \$19,110
 - b. \$11,509
 - c. \$19,460
 - d. \$9,730

2. What is the balance due from the purchaser at the closing?
 - a. \$274,476.78
 - b. \$274,251.78
 - c. \$279,251.78
 - d. \$274,063.11

3. What are the seller's net proceeds from the sale?
 - a. \$145,286.40
 - b. \$143,336.40
 - c. \$144,639.96
 - d. \$139,989.96

4. What is the amount of real estate taxes chargeable to the purchaser?
- a. \$1,298.22
 - b. \$651.78
 - c. \$486.16
 - d. \$1,463.84

Closing Problem 3

Purchase price: \$350,000

Earnest money: \$3,500

Commission rate: 6 percent split 50-50 between the two brokers

Real estate taxes: \$2,900 paid in full for the current year

Attorney fee: \$800

Title insurance policy paid by seller: \$1,150

Fire and extended coverage insurance policy: \$758 annual premium

Revenue stamps paid by seller: \$126.30

Deed recording fee: \$30

Mortgage balance after October 1st payment: \$127,042.42

Interest: paid in arrears

Interest rate: 8.75 percent

Next mortgage payment due: November 1st

Terms of the sale:

Purchaser to assume the existing mortgage loan balance of \$127,042.42

Purchaser to pay in cash at closing the difference between the purchase price and the assumed loan

Closing date: October 15th

Prorate using the actual number of days in the month and the year

Split the attorney fee 50-50 between the parties

1. What are the prorated real estate taxes to be charged to the buyer?
 - a. \$288.96
 - b. \$611.78
 - c. \$690.67
 - d. \$728.30

2. What will be the amount of commission paid to the cooperating broker?
 - a. \$8,750
 - b. \$10,500
 - c. \$17,500
 - d. \$21,000

3. What amount will the seller receive at the closing?
 - a. \$200,436.23
 - b. \$205,572.33
 - c. \$208,654.34
 - d. \$217,749.28

4. How much will the purchaser need to complete this transaction?
 - a. \$220,800.53
 - b. \$222,957.28
 - c. \$224,778.49
 - d. \$228,713.26