

DIAGNOSTIC TEST

1. The deed that provides the buyer the greatest protection is the
 1. bargain and sale deed.
 2. general warranty deed.
 3. quitclaim deed.
 4. specialty warranty deed.
2. A warranty deed generally will transfer title to the grantee when it is
 1. acknowledged.
 2. signed by the grantee.
 3. signed by the grantor.
 4. delivered and accepted.
3. Which of the following would be an example of voluntary alienation?
 1. Sale
 2. Eminent domain
 3. Escheat
 4. Adverse possession
4. A grantee has received an executed, notarized deed. The grantee takes possession of the property but does not record the deed. The conveyance is
 1. invalid between the parties and valid as to third parties with constructive notice.
 2. valid as between the parties and valid as to the subsequent recorded interests.
 3. valid as between the parties and invalid as to subsequent recorded interests without notice.
 4. invalid as between the parties.
5. Which of the following statements does *NOT* correctly describe a properly executed will?
 1. It takes effect only after the death of the devisee.
 2. It specifies who will inherit the owner's property.
 3. It must conform to the state statute.
 4. It cannot supersede state laws of dower and curtesy.
6. Generally, title insurance coverage extends to
 1. defects known to the buyer.
 2. liens listed in the policy.
 3. defects listed in the policy.
 4. defects not found in the public record.
7. A deed must be signed by the
 1. grantor.
 2. vendee.
 3. grantee.
 4. vendor.
8. What do the following situations have in common?
 - I. A man's property is taken by the city and used for a new highway.
 - II. A woman's land gradually is wearing away because of wind.
 - III. A developer's property is sold at a foreclosure sale.
 1. They will require the use of a warranty deed to transfer title.
 2. They are all examples of voluntary alienation of title.
 3. They are all examples of eminent domain.
 4. They are all examples of involuntary alienation.
9. A and B have entered into a binding offer to purchase. B will buy A's house. Which of the following statements correctly describes the status of the transaction?
 1. A will have equitable title until closing.
 2. B will have legal title when the offer to purchase becomes binding on both parties.
 3. A will have legal title until the offer becomes binding, at which time A will hold equitable title.
 4. A will hold legal title until closing, and B will hold equitable title until closing.
10. Which of the following statements does *NOT* correctly describe equitable title?
 1. Upon creation of a binding offer to purchase, buyer holds equitable title.
 2. Equitable title converts to legal title upon delivery and acceptance of the deed.
 3. If so specified, it may be conveyed by deed.
 4. It may not be conveyed by will.

11. The need for a loan closing to be prepared on a Uniform Settlement Statement is a requirement of
 1. Regulation Z.
 2. the federal fair housing laws.
 3. Government National Mortgage Association (GNMA, or Ginnie Mae).
 4. RESPA.
12. The requirement that a lender give each loan applicant a copy of *Settlement Costs and You* is created under
 1. Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac).
 2. Federal Housing Administration (FHA).
 3. RESPA.
 4. Regulation Z.
13. Which of the following is *NOT* a requirement for establishing independent contractor status for a salesperson?
 1. The individual must have a current real estate license.
 2. Ninety percent or more of the individual's income as a licensee must be based on sales production.
 3. The individual's income must be based on the number of hours worked.
 4. The individual must not be included in the company hospitalization and retirement program.
14. The person conducting the closing must report details on closing to the IRS on
 1. IRS Form 1099.
 2. IRS Form 1099 S.
 3. IRS Form 1099 MISC.
 4. IRS Form 1099 R.
15. Section 1031 of the Internal Revenue Code allows real estate investors to do which of the following when making a property exchange?
 1. Avoid the capital-gains tax only if the exchange is of like kind
 2. Phase out the capital-gains tax
 3. Defer the capital-gains tax
 4. Avoid the capital-gains tax even if the exchange is not of like kind
16. A single person listed a house and accepted an offer from a buyer. Then, before closing, the person married. At closing the other spouse signed a deed to relinquish an inchoate interest in the property being sold. What kind of deed would be used to convey their inchoate interest without imposing any legal obligations to defend its title?
 1. Quitclaim
 2. Bargain and sale
 3. Special warranty
 4. General warranty
17. When a grantor appears before a notary, the notary attests that the grantor is who he or she says they are and that their signing is
 1. legal.
 2. deliberate.
 3. voluntary.
 4. insured.
18. RESPA requires that borrowers be provided with a good faith estimate of settlement costs by lenders no later than how many business days after the loan application?
 1. One
 2. Two
 3. Three
 4. Four
19. Brenda and Carl, a married couple, bought a principal residence in 1998 for \$300,000. They sold the property in 2006 with a capital gain of \$600,000. Capital gains tax on their profit will be
 1. \$0.
 2. \$100,000.
 3. \$600,000.
 4. \$900,000.
20. Which deed would typically be used to cure a defect in title?
 1. Bargain and sale deed
 2. General warranty deed
 3. Quitclaim deed
 4. Special warranty deed

MATCHING QUIZ

The column on the right contains brief memory links to important terms in Chapter 10.
Write the letter of the matching term on the appropriate line.

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| A. Acknowledgment | 1. _____ Means of conveyance by the trustor |
| B. Reconveyance clause | 2. _____ Follows granting clause and starts with "To have and to hold" |
| C. Covenant of seisin | 3. _____ The person who conveys title to someone else by deed |
| D. Constructive notice | 4. _____ Insurance that protects against loss from title defects |
| E. Grantee | 5. _____ The grantor's expression that he or she has possession and the right to convey the property |
| F. Grantor | 6. _____ Grantor guarantees that title is good against third parties who might bring court actions to establish superior title |
| G. Abstract of title | 7. _____ In the presence of a notary, "I am who I say I am and my act is voluntary" |
| H. Title insurance | 8. _____ Clause requiring the return of the trust deed to the trustor |
| I. Trust deed | 9. _____ A summary made from the recorded legal history of a property |
| J. Habendum clause | 10. _____ The person who receives title by deed |
| K. Covenant of quiet enjoyment | 11. _____ Dying without a will |
| L. Devise | 12. _____ Settlement costs legislation |
| M. Testate | 13. _____ Uniform Settlement Statement |
| N. Intestate | 14. _____ The transfer of real property by will |
| O. IRS Code 1031 | 15. _____ Type of notice given by recording a deed |
| P. 1099 MISC | 16. _____ A very high percentage of this person's income is based on sales production |
| Q. RESPA | 17. _____ A type of deed that conveys title without imposing any future title liability on the grantor |
| R. Quitclaim deed | 18. _____ IRS reporting form for commissions paid |
| S. HUD Form 1 | 19. _____ Dying with a valid will |
| T. Independent contractor | 20. _____ IRS code that governs tax-deferred exchanges |

ANSWER KEY: DIAGNOSTIC TEST

1. (2) The general warranty deed provides the buyer with the greatest protection. The quitclaim deed provides the buyer with the least amount of protection. A special warranty deed protects the buyer against title defects but only during the ownership period of the grantor. (134)
2. (4) The title transfers once the deed is delivered and accepted by the grantee. It is signed by the grantor; the grantee's name must appear on the deed, but the deed is not signed by the grantee. The deed is often notarized, and the notary attests the grantor's acknowledgement that the grantor signature is a voluntary act and that they are in fact who they say they are. The notarized signature is an attempt to keep forged documents from being recorded. (134)
3. (1) Obviously a sale is a voluntary alienation; all the other responses are examples of involuntary alienation. Eminent domain is the right of the government to take private property for public use or public benefit if just compensation is paid to the landowner. Escheat applies when a person dies without a will and without heirs capable of inheriting and the government then takes ownership of the abandoned property. Adverse possession is the open and notorious use of another's land under a claim of right or color of title. (134)
4. (3) The grantee must give constructive notice that he has an interest in the property. Constructive notice is given by recording the deed in the registrar of deeds office or by occupying the property. (135–136)
5. (1) A devise is a gift of real property by will. The deviser is the donor of the gifted real property, and the devisee is the recipient of the real property. (133)
6. (4) Title insurance does not cover liens or defects listed in the policy. (135)
7. (1) The vendor is the seller in a land contract; the vendee is the buyer. The grantee must be identified in the deed but does not have to sign it. (135)
8. (4) Selling and gifting property are examples of voluntary alienation. (133–134)
9. (4) *B* will have equitable title until closing, after which *B* will have legal title. (136)
10. (4) The seller maintains legal title and the buyer has equitable title until the closing takes place and the deed transfers to the buyer. (136)
11. (4) Regulation Z requires disclosure of cost in credit transactions. The Federal Fair Housing laws prohibit discrimination against groups of people identified as protected classes. GNMA functions in the secondary mortgage market. (137)
12. (3) Freddie Mac buys and sells mortgages in the secondary mortgage market. The FHA provides public mortgage insurance for home loans. Regulation Z requires credit cost disclosure and provides for right of rescission in certain types of credit transactions under certain conditions. (136)
13. (3) One of the three IRS requirements for independent contractor status is that 90 percent or more of the individual's income as a licensee must be based on sales production, not on the number of hours worked. (137)
14. (2) IRS rules also require brokers to report commissions paid to salespeople on IRS Form 1099 MISC. (138)
15. (3) Section 1031 of the IRC does not allow real estate investors to either avoid or phase out the capital gains tax; it only allows for the deferring of the tax. (138)
16. (1) A quitclaim deed is used to convey title without imposing any liability on the grantor to defend its quality. (134)

17. (3) The act must be voluntary. By the deed being signed in the presence of a notary, the recorder's office is confident that the grantor's signature has not been forged. (135)
18. (3) RESPA allows three (3) business days or 72 hours to receive a good faith estimate from the lender. The purpose of this legislation is to empower the consumer with accurate and timely information about the actual settlement costs they are expected to pay at closing. (136)
19. (2) $\$600,000 - \$500,000 = \$100,000$. A married couple may exclude \$500,000 from capital gains tax for profits on the sale of a principal residence if they file jointly. (137)
20. (3) The bargain and sale deed, general warranty deed, and special warranty deed all contain some type of warranty, whereas the quitclaim deed is to be used to "quit" any claim against title, such as a defect caused by a forged signature. The injured party (grantor) would be compensated for damages suffered by his or her forged signature. (134)

TEST SCORE

TRANSFER OF TITLE		
Rating	Range	Your Score
Good = 80% to 100%	16-20	Total Number 20
Fair = 70% to 79%	14-15	Total Wrong -
Needs improvement = Lower than 70%	13 or less	Total Right _____

Passing Requirement: 14 or Better

ANSWER KEY: MATCHING QUIZ

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|------|-------|-------|-------|
| 1. I | 6. K | 11. N | 16. T |
| 2. J | 7. A | 12. Q | 17. R |
| 3. F | 8. B | 13. S | 18. P |
| 4. H | 9. G | 14. L | 19. M |
| 5. C | 10. E | 15. D | 20. O |