



Texas Real Estate 26

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1. In Texas, the term 'client' refers to the party who has what type of relationship with a real estate broker?

- A. A principal who has signed a written representation agreement
- B. A customer who receives limited non-confidential assistance
- C. Any member of the public who enters a listing
- D. A buyer who makes an offer without representation

2. Which agency promulgates the standard contract forms that Texas real estate license holders must use for most residential resale transactions?

- A. The Texas Real Estate Commission (TREC)
- B. The Texas Association of Realtors
- C. The Texas Department of Insurance
- D. The local county clerk

3. A conventional loan is BEST described as a mortgage that is:

- A. Insured by the Federal Housing Administration
- B. Guaranteed by the Department of Veterans Affairs
- C. Backed by the Rural Housing Service
- D. Not insured or guaranteed by the federal government

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4. A home sells for \$280,000. The broker charges a 6% commission. What is the total commission?

- A. \$1,680
- B. \$28,000
- C. \$16,800
- D. \$18,600



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5. A grantor conveys land 'to the City of Dallas so long as it is used for a public park.' The city's estate is best described as:

- A. Fee simple absolute
- B. Fee simple determinable
- C. Fee simple subject to a condition subsequent
- D. Life estate

6. In Texas, an agent who represents only the buyer in a transaction is called a(n):

- A. Buyer's agent
- B. Listing agent
- C. Dual agent
- D. Transaction broker

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7. How many members serve on the Texas Real Estate Commission (TREC)?

- A. Nine members
- B. Seven members
- C. Eleven members
- D. Five members

8. The primary purpose of a real estate appraisal is to:

- A. Determine the listing price for a property
- B. Negotiate a final sale price between buyer and seller
- C. Provide an unbiased estimate of market value
- D. Calculate the property's assessed value for taxation

9. Under TRELTA, who bears ultimate responsibility for the acts and omissions of sponsored sales agents?

- A. The sales agent individually
- B. The Texas Real Estate Commission (TREC)
- C. The sponsoring broker
- D. The local association of REALTORS®

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10. A Texas license holder is filling in a TREC promulgated contract. Which of the following may the license holder NOT do?

- A. Fill in factual blanks the parties agree to
- B. Draft language that adds to or alters the printed contract terms
- C. Add factual statements the parties direct in the Special Provisions paragraph
- D. Strike through and initial an inapplicable provision as directed by the parties

11. Which loan program is specifically designed to help eligible veterans and active-duty service members purchase homes with no down payment?

- A. FHA loan
- B. VA loan
- C. USDA loan
- D. Conventional conforming loan

12. An agent earns 35% of the commission her broker collects. The home sold for \$410,000 at a 5.5% commission rate. What does the agent earn (rounded to the nearest dollar)?

- A. \$14,658
- B. \$7,893
- C. \$22,550
- D. \$8,092

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13. A deed contains the words 'but if the premises are ever used for commercial purposes, the grantor may re-enter.' This language creates a:

- A. Fee simple determinable
- B. Fee tail
- C. Life estate pur autre vie
- D. Fee simple subject to a condition subsequent

14. Which document in Texas formally establishes an agency relationship between a buyer and a real estate licensee?

- A. MLS listing agreement
- B. Seller's Disclosure Notice
- C. Buyer Representation Agreement
- D. Purchase contract



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15. Which Texas statute is the primary law governing real estate licensing in Texas?

- A. Texas Property Code
- B. Texas Occupations Code Chapter 1001
- C. Texas Business and Commerce Code
- D. Texas Real Estate License Act of 1939

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16. Market value is best defined as the most probable price a property will bring when:

- A. The seller is under duress and must sell quickly
- B. Buyer and seller act in their own best interests with reasonable knowledge of the facts
- C. A lender orders the appraisal for a refinance transaction
- D. The property is sold through a foreclosure auction

17. Which of the following duties is owed to a CLIENT but NOT to a mere customer under Texas law?

- A. Honesty
- B. Loyalty (fiduciary duty)
- C. Disclosure of material defects
- D. Providing accurate information

18. When is a Texas license holder permitted to use a contract form that is NOT promulgated by TREC?

- A. Never, under any circumstance
- B. Only when the buyer requests it verbally
- C. When the transaction is one for which TREC has not promulgated a form, or a party's attorney prepares the form
- D. Whenever the broker prefers different language

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19. The USDA Rural Development loan program is primarily intended for buyers purchasing property in:

- A. Major metropolitan areas with populations over 500,000
- B. Any location within the continental United States
- C. Rural and certain suburban areas meeting USDA eligibility criteria
- D. Properties adjacent to military installations

20. A seller wants to net exactly \$250,000 after paying a 6% commission and \$3,500 in closing costs. What must the minimum sale price be (rounded to the nearest dollar)?

- A. \$266,276
- B. \$263,500
- C. \$269,681
- D. \$271,500

21. Maria owns a life estate in a home. She rents it to a tenant for 5 years. If Maria dies after 2 years, what happens to the lease?

- A. The lease continues for the remaining 3 years because the tenant is protected
- B. The remainderman must honor the lease for its full term
- C. The lease terminates immediately because a life tenant cannot convey rights beyond her lifetime
- D. The estate converts to a fee simple for the tenant

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22. Under the Texas Real Estate License Act, which duty requires a licensee to place the client's interests above all others, including the licensee's own interests?

- A. Obedience
- B. Loyalty
- C. Disclosure
- D. Accounting

23. TREC rules and regulations are found in which Title of the Texas Administrative Code?

- A. Title 22
- B. Title 10
- C. Title 31
- D. Title 7



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24. Which THREE approaches are used by appraisers to estimate property value?

- A. Sales comparison, cost, and income capitalization
- B. Sales comparison, replacement, and gross rent multiplier
- C. Cost, depreciation, and discounted cash flow
- D. Income capitalization, assessed value, and gross rent multiplier

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25. When a broker represents both the buyer and seller in the same transaction with both parties' written consent, this is called:

- A. Exclusive agency
- B. Transactional brokerage
- C. Intermediary brokerage
- D. Subagency

26. The Texas form most commonly used for the resale of an existing single-family home is the:

- A. Farm and Ranch Contract
- B. New Home Contract (Incomplete Construction)
- C. Unimproved Property Contract
- D. One to Four Family Residential Contract (Resale)

27. In an adjustable-rate mortgage (ARM), the initial interest rate is typically:

- A. Higher than fixed-rate mortgages to compensate the lender for risk
- B. Fixed permanently and never adjusted during the loan term
- C. Lower than a comparable fixed-rate mortgage for the introductory period
- D. Set by the Federal Reserve Board and adjusted quarterly

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28. A property is assessed at \$320,000. The tax rate is expressed as 45 mills. What is the annual tax bill?

- A. \$1,440
- B. \$14,400
- C. \$3,200
- D. \$45,000



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29. Under the doctrine of waste as it applies to life estates in Texas, a life tenant who commits voluntary waste is liable to:

- A. The state of Texas only
- B. The remainderman or reversioner
- C. The original grantor exclusively
- D. No one, because a life tenant has full use rights

30. An intermediary relationship in Texas is created when a single broker represents:

- A. Only the seller in a transaction
- B. Two brokers from different firms
- C. A buyer and seller from different transactions
- D. Both the buyer and seller in the same transaction



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Answer Key & Explanations

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1. A — A principal who has signed a written representation agreement

A client in Texas real estate is a principal — a seller, buyer, landlord, or tenant — who has entered into a written representation agreement with the broker, creating fiduciary-level duties.

2. A — The Texas Real Estate Commission (TREC)

TREC promulgates contract forms; license holders are generally required to use these mandatory forms in transactions for which they are intended.

3. D — Not insured or guaranteed by the federal government

A conventional loan is any mortgage not insured or guaranteed by a federal agency. FHA, VA, and USDA loans are government-backed programs, distinguishing them from conventional products.

4. C — \$16,800

Commission = Sale Price × Rate = \$280,000 × 0.06 = \$16,800.

5. B — Fee simple determinable

The words 'so long as' create a fee simple determinable, which automatically reverts to the grantor (via the possibility of reverter) when the specified use ceases.

6. A — Buyer's agent

A buyer's agent represents solely the buyer's interests. The listing agent represents the seller, while dual agency involves representing both parties simultaneously.

7. A — Nine members

TREC is composed of nine members appointed by the governor: six licensed brokers and three public members who represent consumer interests.

8. C — Provide an unbiased estimate of market value

An appraisal is an objective, unbiased opinion of a property's market value prepared by a licensed or certified appraiser. It differs from a listing price or assessed value, which serve other purposes.

9. C — The sponsoring broker

Under the Texas Real Estate License Act (TRELA), the sponsoring broker is legally responsible for all professional acts performed by their sponsored agents.

10. B — Draft language that adds to or alters the printed contract terms

License holders may complete blanks but may not practice law by drafting added or altered contract language; that is the unauthorized practice of law.

11. B — VA loan

The VA loan program, administered by the Department of Veterans Affairs, allows qualified veterans and active-duty service members to finance 100% of the purchase price with no private mortgage insurance requirement.



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12. B — \$7,893

Broker commission = $\$410,000 \times 0.055 = \$22,550$. Agent's share = $\$22,550 \times 0.35 = \$7,892.50 \approx \$7,893$.

13. D — Fee simple subject to a condition subsequent

Language giving the grantor a right to re-enter (power of termination) upon breach of a condition creates a fee simple subject to a condition subsequent — the estate does not automatically end but is subject to termination.

14. C — Buyer Representation Agreement

The Buyer Representation Agreement (TREC form) legally creates the agency relationship between the buyer and the licensee. Other documents such as the purchase contract do not establish agency.

15. D — Texas Real Estate License Act of 1939

The Texas Real Estate License Act (TRELA) was codified as Chapter 1101 of the Texas Occupations Code, which is the primary statute governing real estate licensing.

16. B — Buyer and seller act in their own best interests with reasonable knowledge of the facts

Market value assumes an arm's-length transaction between a willing buyer and willing seller, both with adequate knowledge, neither under compulsion to buy or sell.

17. B — Loyalty (fiduciary duty)

Loyalty is a fiduciary duty owed exclusively to a client. Honesty and disclosure of material defects are owed to everyone, including customers, regardless of representation status.

18. C — When the transaction is one for which TREC has not promulgated a form, or a party's attorney prepares the form

License holders may use non-promulgated forms when TREC has no applicable form or when a transaction party's attorney drafts the form.

19. C — Rural and certain suburban areas meeting USDA eligibility criteria

USDA Rural Development loans are designed to promote homeownership in rural and qualifying suburban communities. Eligibility is based on property location and buyer income limits.

20. C — \$269,681

Net = Price \times 0.94 - \$3,500 = \$250,000 \rightarrow Price \times 0.94 = \$253,500 \rightarrow Price = $\$253,500 \div 0.94 \approx \$269,681$.

21. C — The lease terminates immediately because a life tenant cannot convey rights beyond her lifetime

A life tenant can only convey what she has — an estate measured by her life. When she dies, the life estate (and any interests derived from it) terminates, so the tenant's lease also ends.

22. B — Loyalty

Loyalty requires the agent to always act in the client's best interest, putting those interests ahead of the agent's own. Obedience means following lawful instructions; disclosure means revealing material facts.

23. A — Title 22

TREC's administrative rules are published in Title 22 of the Texas Administrative Code, which covers Examining Boards including real estate.



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24. A — Sales comparison, cost, and income capitalization

The three recognized approaches are the Sales Comparison Approach, the Cost Approach, and the Income Capitalization Approach. Appraisers may use one, two, or all three depending on property type and data availability.

25. C — Intermediary brokerage

Texas uses the term 'intermediary' for a broker who, with written consent of both parties, represents both buyer and seller in the same transaction.

26. D — One to Four Family Residential Contract (Resale)

The One to Four Family Residential Contract (Resale) is the standard TREC form for resale of existing one-to-four unit residential property.

27. C — Lower than a comparable fixed-rate mortgage for the introductory period

ARMs typically start with a lower introductory interest rate to attract borrowers, then adjust periodically based on a financial index. This initial savings comes with the risk of rate increases after the initial fixed period.

28. B — \$14,400

One mill = \$0.001 per dollar. Tax = $\$320,000 \times 0.045 = \$14,400$. (45 mills = \$45 per \$1,000 of assessed value.)

29. B — The remainderman or reversioner

The life tenant must not commit voluntary (affirmative) waste that permanently damages or destroys the property, because the remainderman/reversioner holds a protectable future interest. They may sue for damages.

30. D — Both the buyer and seller in the same transaction

Texas law permits a broker to act as an intermediary when representing both the buyer and seller in the same transaction, with written consent from both parties.



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