Table of Contents

1

I. CALIFORNIA'S REAL ESTATE MARKET (p. 1)

A. California Bureau of Real Estate (CalBRE) (p. 1)

Chapter 1: Introduction To Real Estate

- B. Meaningful Technological Changes in Real Estate (p. 3)
 - 1. Real Estate Buyers and Sellers Start Online (p. 3)
 - 2. REALTOR.com® Possibly the Most Reliable (p. 3)
 - 3. New Domain Names for REALTORS® (p. 3)
 - 4. Social Media (p. 4)
 - 5. California Has Always Been on the Cutting Edge (p. 5)
- C. High Cost of California Real Estate (p. 5)
- D. Real Estate: A Profitable Profession (p. 5)

II. HISTORICAL INFLUENCE (p. 6)

- A. California's Colorful History (p. 6)
- B. California Land Ownership (p. 6)

III. REAL AND PERSONAL PROPERTY (p. 7)

- A. Ownership is a Bundle of Rights (p. 7)
- B. Real Property (p. 8)
 - 1. Land (p. 8)
 - 2. Attached to the Land ("Improvements") (p. 9)
 - 3. Incidental or Appurtenant to the Land (p. 10)
 - 4. Immovable by Law (p. 10)
- C. Personal Property (p. 10)
- D. Fixtures (p. 11)
 - 1. Method of Attachment (p. 11)
 - 2. Adaptability (p. 12)
 - 3. Relationship of the Parties (p. 12)
 - 4. Intention (p. 12)
 - 5. Agreement (p. 12)
- E. Trade Fixtures (Always Personal Property) (Removable – Exception to the Rule) (p. 12)

IV. METHODS OF LAND DESCRIPTION (p. 12)

- A. Metes and Bounds (Surveyor's Maps) (p. 13)
- B. Sections and Townships (U.S. Government Survey) (p. 14)
 - 1. Base Lines and Meridian Lines (p. 14)
 - 2. Tiers, Ranges, and Townships (p. 14)
 - a. Reading Tier (Township) and Section Descriptions (p. 16)
 - 3. Sections (A Section is One Square Mile) (p. 16)
 - a. Section Problem (p. 18)
 - b. Section Answer (p. 18)
- C. Lots, Blocks, and Tracts (Recorded Subdivisions) (p. 18)

27

V. CHAPTER SUMMARY (p. 21) VI. TERMINOLOGY (p. 22) VII. CHAPTER QUIZ (p. 23)
Chapter 2: Estates, Transfers, and Titles
I. ESTATE OWNERSHIP (p. 27) A. Estates (Ownership Interest in Land) (p. 27) B. Freehold Estates (Real Property) (p. 27) 1. Estates in Fee (p. 27) a. Conditions that Restrict a Fee Estate (Fee Simple Defeasible Estate) (p. 29) 2. Life Estate (Indefinite Period) (p. 30) C. Less-Than-Freehold Estates (No Title to Real Property) (A Leasehold is Personal Property) (p. 30) 1. Estate For Years (Tenancy for a Fixed Term) (p. 31) 2. Estate From Period-To-Period (Periodic Tenancy) (p. 31) 3. Estate At Will (p. 31) 4. Estate At Sufferance/Tenancy At Sufferance (p. 31) II. ACQUISITIONS AND TRANSFERS (p. 32) A. Transfers (p. 32) 1. Transfer by Deed (p. 32) 2. Transfer by Will (Testate) (p. 37) 3. Transfer by Probate (Superior Court Approval) (p. 37) 4. Transfer by Intestate Succession (No Will) (p. 38) 5. Transfer by Accession (Natural Causes) (p. 38) 6. Transfer by Occupancy (p. 38) a. Abandonment (p. 39) b. Adverse Possession (p. 39)
c. Easement by Prescription (p. 39) 7. Transfer by Dedication (p. 40)
III. TITLE (FORMS OF OWNERSHIP) (p. 40)
A. Title (p. 40)
1. Severalty (Sole Ownership) (p. 40)
 2. Tenancy in Common (Unity of Possession) (p. 41) 3. Joint Tenancy (Right of Survivorship) (p. 41) 4. Tenancy in Partnership (p. 42) 5. Community Property (p. 43)
6. Community Property with Right of Survivorship (p. 44)
IV. RECORDING AND ACKNOWLEDGMENT (p. 44)
A. Recording (p. 44) B. Priority of Poconding (p. 45)
B. Priority of Recording (p. 45) C. Acknowledgment (or Notary) (p. 46)
D. Do Not Give Legal Advice (p. 46)
V. CHAPTER SUMMARY (p. 47)
VI. TERMINOLOGY (p. 48)
VII. CHAPTER QUIZ (p. 50)



Chapter 3: Encumbrances

53

- I. ENCUMBRANCES AN OVERVIEW (p. 53)
- II. LIENS (MONEY OWED) (p. 53)
 - A. Voluntary and Involuntary Liens (p. 55)
 - B. Specific and General Liens (p. 55)
 - C. Trust Deed/Deed of Trust (Security Device Voluntary and Specific) (p. 55)
 - D. Mortgage (Security Device Voluntary and Specific) (p. 55)
 - E. Mechanic's Liens (Involuntary and Specific) (p. 55)
 - 1. Preliminary Notice (p. 56)
 - 2. Determining the Start Time for Mechanic's Liens (p. 56)
 - 3. Notice of Completion and Notice of Cessation (Limits Time to File) (p. 56)
 - 4. Filing Time (Limited) (p. 58)
 - 5. Notice of Non-Responsibility (Must be Recorded and Posted) (p. 58)
 - F. Tax Liens (Specific or General Liens) (p. 58)
 - G. Special Assessments (p. 58)
 - H. Judgments (Involuntary and General Liens) (p. 59)
 - 1. Small Claims Court (\$10,000 Limit) (p. 59)
 - I. Termination of Judgment Lien (p. 59)
 - J. Attachment (Court-Seized Property) (p. 59)
 - K. Lis Pendens ("Suit Pending") (p. 60)
 - L. Sheriff's Sale (Court Order to Sell Execution) (p. 60)
 - M. Injunction (Court Order to Stop) (p. 60)

III. ITEMS THAT AFFECT PHYSICAL USE (NON-MONEY ENCUMBRANCES) (p. 60)

- A. Items That Affect Physical Use (p. 60)
 - 1. Easements (The Right to Use Another's Land) (p. 61)
 - a. Easement Appurtenant (Runs With the Land) (p. 61)
 - b. Easement in Gross (Does Not Benefit Adjoining Landowner) (p. 62)
 - c. Creation of an Easement (p. 63)
 - d. Transfer of an Easement (p. 64)
 - e. Termination of an Easement (p. 64)
 - 2. Building Restrictions (Public and Private) (p. 64)
 - a. Covenants (Promises Broken, Sue for Damages) (p. 65)
 - b. Conditions (More Stringent than Breaking a Covenant Can Lose Title) (p. 65)
 - c. Public/Governmental Restrictions (Zoning) (p. 65)
 - d. Race Restrictions (Illegal) (p. 66)
 - 3. Encroachments (Three Years to Act) (p. 66)

IV. HOMESTEADING YOUR RESIDENCE (PROTECTS AGAINST JUDGMENT LIENS) (p. 66)

- A. Homestead Declaration (p. 67)
- B. Termination of Homestead (p. 67)
- V. CHAPTER SUMMARY (p. 69)
- VI. TERMINOLOGY (p. 71)
- VII. CHAPTER QUIZ (p. 72)

Chapter 4: Agency and Its Responsibilities **75** I. AGENCY - AN OVERVIEW (p. 75) A. Agent, Principal, and Third Party (p. 75) 1. Agent (p. 75) 2. Principal (p. 75) 3. Third Party (p. 77) B. Law of Agency (p. 79) C. Responsibilites of Agency (p. 80) 1. Fiduciary Relationship (p. 80) D. Listing and Selling Agents (p. 81) II. REAL ESTATE AGENCY RELATIONSHIP DISCLOSURE (p. 81) A. Agency Disclosure Law (p. 81) III. LISTINGS AND THE MULTIPLE LISTING SERVICE (MLS) (p. 85) A. Listing Agreements (p. 85) 1. Open Listing (Unilateral, Non-Exclusive Contract) (p. 86) 2. Exclusive Agency Listing (No Commission if Owner Sells Privately) (p. 86) 3. Exclusive Right to Sell Listing (Commission if Sold Within the Listing Period) (p. 87) 4. Net Listing (Must Be Used With Other Listing – Seldom Used) (p. 87) 5. Option Listing (Broker has a Reserved Right to Buy) (p. 93) B. Listing Agreement Copies (Give Copy When Signed) (p. 93) C. Multiple Listing Service (MLS) (Subagents and Cooperating Brokers) (p. 93) D. Multiple Listing Services on the Internet (p. 94) E. Cooperating Brokers (p. 94) 1. Selling in Other States (p. 95) IV. COMMISSIONS (NEGOTIABLE) (p. 95) V. TRANSFER DISCLOSURE STATEMENT (p. 97) A. Easton v. Strassburger (p. 97) B. Transfer Disclosure Statement (TDS) (Seller and Selling Broker Must Provide This Form) (p. 98) VI. BROKER'S RESPONSIBILITES (p. 99) A. Trust Accounts (Other People's Money) (p. 99) B. Transaction File (Keep for Three Years) (p. 103) C. Salespeople May Be Independent Contractors or Employees (p. 104) D. Written Broker-Associate Contracts (p. 104) E. CalBRE Notification (p. 109) F. Agents Who Buy and Sell for Their Own Account (Disclose You Have a Real Estate License) (p. 109) G. Power of Attorney (p. 109) H. Torts by an Agent (Broker/Salesperson) (p. 110) I. Misrepresentation of a Material Fact (p. 110) J. Secret Profit (p. 111) K. Warranty of Authority (p. 111) L. Disclosure of AIDS and Death (p. 112) VII. REQUIRED DISCLOSURES – AGENT SUMMARY (ONE- TO FOUR-UNIT RESIDENTIAL SALES) (p. 112)

C. Disclosure of the Negotiability of Real Estate Commissions (p. 112)

A. Visual Inspection (p. 112)

B. Disclosure of Agency Relationship (p. 112)



TABLE OF CONTENTS	
D. No Disclosure Required for Manner/Occurance of Death; Affliction of Occupa	nt
With AIDS (p. 113)	
VIII. TERMINATING AN AGENCY RELATIONSHIP (p. 113)	
A. Reasons for Termination of Agency (p. 113)	
1. Operation of Law (p. 113)	
a. Expiration of the Agency (Listing) Agreement (p. 113)	
b. Destruction of the Property (p. 113)	
c. Death or Incapacity of the Broker or Seller (Listing Only) (p. 113)	
2. Acts of the Seller or Broker (p. 113)	
a. Agreement by Both the Broker and Seller (p. 113)	
b. Renouncement of the Listing Agreement by the Broker (p. 114)	
c. Revocation of the Listing Agreement by the Seller (p. 114)	
d. Close of Escrow (p. 114)	
IX. A BROKERAGE MUST BE RUN LIKE A BUSINESS (p. 114)	
A. Generational Changes in Online Brokerage Marketing (p. 115)	
1. Online Real Estate Searches (p. 115)	
a. Realtor.com (p. 115)	
b. Zillow.com (p. 115)	
c. Multiple Listing Service (p. 115)	
d. Google (p. 116)	
2. Social Media (p. 117)	
3. Keeping Up With New Technology (p. 117)	
a. Quick Response (QR Codes) (p. 117)	
b. It's a Fast Growing Mobile World (p. 117)	
c. Millennials vs. Baby Boomers (p. 117)	
X. CHAPTER SUMMARY (p. 118)	
XI. TERMINOLOGY (p. 120)	
XII. CHAPTER QUIZ (p. 121)	
Chapter 5: Contracts (Going Digital)	125
Shapter 3. Contracts (Going Digital)	123
I. CONTRACTS IN GENERAL (GOING DIGITAL) (p. 125)	
A. Classifications of Contracts (p. 127)	
1. Valid (p. 127)	
2. Voidable (p. 127)	
3. Void (p. 127)	
™	
4. Unenforceable (p. 128)	

- B. Life of a Contract (Three Phases) (p. 128)
 - 1. Phase 1 Negotiation (p. 128)
 - 2. Phase 2 Not Yet Performed (p. 128)
 - 3. Phase 3 Completion (p. 128)

II. ELEMENTS OF A CONTRACT (p. 128)

- A. Capacity (p. 129)
 - 1. Minor (p. 129)
 - 2. Incompetent (p. 130)
 - 3. Convicts (p. 130)
- B. Mutual Consent (p. 130)
 - 1. The Offer (p. 130)

- 2. Acceptance (p. 131)
- 3. Termination of an Offer (p. 131)
- 4. Genuine Consent (Contract is Void or Voidable by Victim) (p. 132)
- C. Legality (p. 132)
- D. Consideration (Anything of Value) (p. 133)
- E. Proper Writing (Real Estate Contracts) (p. 133)
 - 1. Parol Evidence Rule (p. 133)

III. PERFORMANCE, DISCHARGE, AND BREACH OF CONTRACT (p. 135)

- A. Performance of a Contract (p. 135)
- B. Discharge of a Contract (p. 135)
 - 1. Full Performance (p. 136)
 - 2. Substantial Performance (p. 136)
 - 3. Partial Performance (p. 136)
 - 4. Impossibility of Performance (p. 136)
 - 5. Agreement Between the Parties (p. 136)
 - 6. Operation of Law (According to Statutes) (p. 137)
 - 7. Acceptance of a Breach (p. 137)
 - 8. Breach (Nonperformance) (p. 137)
 - a. Statute of Limitations (Time Limit for Civil Action) (p. 137)

IV. REMEDIES FOR BREACH OF A CONTRACT (p. 137)

- A. Acceptance of Breach (p. 137)
- B. Unilateral Rescission (p. 138)
- C. Action for Dollar Damages (p. 138)
- D. Specific Performance (p. 140)
- V. DIGITAL REAL ESTATE FORMS AND CONTRACTS (p. 140)

VI. THE RESIDENTIAL PURCHASE AGREEMENT (PAPER OR DIGITAL) (p. 141)

- A. The Offer and Acceptance (With Deposit) (p. 141)
- B. Traditional (Paper) School vs. Ever-Evolving (Digital) School (p. 141)
- C. The Deposit (Consideration for the Purchase Agreement) (p. 152)
 - 1. Covenants (A Promise in the Purchase Agreement) (p. 152)
 - 2. Contingencies, Conditions, or Subject To (An "If" Clause in the Purchase Agreement) (p. 152)
- D. The Purchase Agreement Addendum (p. 153)
- E. The Counter Offer (Replaces Original Offer With Changes in Terms) (p. 153)
- F. Inspection Advisory for Buyers (p. 157)
- VII. SELLER /AGENT REQUIRED DISCLOSURES (p. 160)
- VIII. PURCHASE OPTIONS (p. 162)
 - A. Options (A Unilaterial Contract) (p. 162)
 - IX. CHAPTER SUMMARY (p. 163)
 - X. TERMINOLOGY (p. 164)
 - XI. CHAPTER QUIZ (p. 165)

Chapter 6: Landlord and Tenant (Lessor and Lessee)169

- I. LANDLORD AND TENANT AN OVERVIEW (p. 169)
- II. LEASEHOLD ESTATES (LESS-THAN-FREEHOLD) (p. 169)



- A. Types of Leasehold Estates (Tenancies) (p. 169)
 - 1. Estate For Years (A Lease for a Predetermined Amount of Time) (p. 169)
 - 2. Estate From Period-To-Period (Periodic Tenancy Renewable Each Period) (p. 171)
 - 3. Estate At Will (Tenancy at Will Uncommon) (p. 171)
 - 4. Estate At Sufferance (Tenancy at Sufferance) (p. 171)
- B. Minimum Requirements of a Lease (or Rental Agreement) (p. 180)
- C. Rights and Obligations of the Parties (p. 180)
 - 1. Duration of Lease (p. 180)
 - 2. Amount of Rent (p. 181)
 - 3. Security Deposits (Refundable) (p. 181)
 - 4. Assignment and Subleasing Provisions (p. 181)
 - 5. Liabilities for Injuries and Repairs (p. 182)
 - 6. Conditions and Provisions of a Lease (p. 182)

III. TERMINATION OF A LEASE (OR RENTAL AGREEMENT) (p. 183)

- A. Termination: Expiration of the Term (Most Common Reason) (p. 183)
- B. Termination: Lack of Quiet Possession (p. 183)
- C. Termination: Repairs for Habitability (p. 184)
- D. Termination: Eviction or Operation of Law (p. 184)
- E. Termination: Surrender/Abandonment (p. 186)
- F. Termination: Breach of Conditions (p. 188)
- G. Termination: Destruction of Premises (p. 188)

IV. SPECIAL PURPOSE LEASES (p. 188)

- A. Sale-Leaseback (p. 188)
- B. Lease-Purchase Option (p. 188)
- C. Ground Lease (p. 189)
- D. Graduated Lease (p. 189)
- E. Gross Lease (Income Property) (p. 189)
- F. Net Lease (Income Property) (p. 189)
- G. Percentage Lease (Retail Sales Property) (p. 189)

V. OTHER LEASE/PROPERTY ISSUES (p. 189)

- A. Consumer Price Index (CPI) (p. 189)
- B. License (p. 190)

VI. PROPERTY MANAGEMENT (REAL ESTATE LICENSE REQUIRED) (p. 190)

- A. Management Contract (p. 190)
- B. Residential Manager (p. 190)

VII. PROFESSIONAL ASSOCIATIONS (p. 195)

- A. Institute of Real Estate Management® (IREM) (p. 195)
- B. California Apartment Association® (CAA) (p. 195)
- VIII. CHAPTER SUMMARY (p. 196)
 - IX. TERMINOLOGY (p. 197)
 - X. CHAPTER QUIZ (p. 198)

Chapter 7: Escrows and Title Insurance

201

- I. ESCROWS IN GENERAL (p. 201)
 - A. Requirements for a Valid Escrow (p. 201)

B. Escrow Officer (p. 203)	
C. Real Estate Brokers Can Conduct Escrows (p. 204)	
II. HOW ESCROWS WORK (p. 204)	
A. Escrow Rules (p. 204)	
B. Who Selects the Escrow Company? (p. 204)	
C. Escrow Instructions (p. 206)	
D. Financing is an Important Aspect of the Escrow (p. 206)	
E. Escrow Example (p. 207)	
F. Closing is the Date of Recordation (p. 207)	
III. PRORATION (p. 207)	
A. 30 Days is the Basis for Proration (p. 210)	
IV. TERMITES AND OTHER PROBLEMS (p. 210)	
A. Structural Pest Control Certification Report (Report and Clearance) (p. 210)	
B. Broker Maintains Pest Control Documentation (p. 212)	
V. FIRE INSURANCE (p. 212)	
A. Fire Insurance A Must! (p. 212)	
B. Fire Insurance Proration (p. 212)	
C. Coinsurance Clause (p. 212)	
VI. TITLE INSURANCE (p. 213)	
A. Chain of Title (Recorded Public History) (p. 213)	
B. Title Insurance (Has Four Functions) (p. 214)	
C. Preliminary Title Report (Ordered First) (p. 214)	
VII. TYPES OF TITLE INSURANCE POLICIES (p. 214)	
A. California Land Title Association (CLTA) (Standard Coverage Policy) (p. 214)	
B. American Land Title Association (ALTA) (Extended Coverage Policy –	
Survey Included) (p. 221)	
C. ALTA-R (One- to Four-Residential Units) (p. 221)	
D. Who Pays Title Insurance Fees? (p. 222)	
E. Title Insurance Disclosure (p. 222)	
VIII. REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA) (p. 222)	
IX. CALIFORNIA ESCROW ASSOCIATION (p. 225)	
X. CHAPTER SUMMARY (p. 226)	
XI. TERMINOLOGY (p. 229)	
XII. CHAPTER QUIZ (p. 230)	
Chapter 8: Real Estate Finance	<i>233</i>
I. HYPOTHECATION (PROPERTY AS COLLATERAL) (p. 233)	
II. THE PROMISSORY NOTE (p. 235)	
A. Straight Note (Interest Only) (p. 236)	
B. Partially Amortized Note (Installment Note With a Balloon Payment) (p. 236)	
C. Fully Amortized Installment Note (Level Payment – Most Common) (p. 236)	
III. NEGOTIABLE INSTRUMENTS (p. 237)	
A. Promissory Notes, Checks, Others (p. 237)	
B. Holder In Due Course (No Knowledge of Defect) (p. 238)	
IV. IMPORTANT CLAUSES IN FINANCIAL INSTRUMENTS (p. 238)	

- A. Acceleration Clause (Entire Amount Due) (p. 238)
- B. Alienation Clause (Due on Sale) (p. 238)
- C. Assumption (p. 238)
- D. Subordination Clause (Current Loan Stands Still; New Loan Moves Ahead) (p. 238)
- E. Prepayment Penalties (Fee for Early Payment) (p. 239)
- F. Impound Accounts (Reserves) (p. 239)
- G. Assignment of Rents (Take Possession) (p. 239)

V. INTEREST AND TYPES OF LOANS (p. 239)

- A. Interest (Simple Interest) (p. 239)
- B. Fixed Interest Rates (Fixed Rate) (p. 240)
- C. Amortization Payments (p. 240)
- D. Adjustable Rate Mortgage (ARM) (p. 241)
- E. Some Special Purpose Types of Loans (p. 243)
 - 1. Graduated Payment Mortgage (GPM/GPAM) (For First Time Buyers) (p. 243)
 - 2. Biweekly Mortgage (26 Payments) (p. 243)
 - 3. 15-Year Fixed and Adjustable Rate Loans (p. 243)
 - 4. Reverse Mortgage Loans (Seniors Who Need Income) (p. 243)

VI. DISCOUNT POINTS, LOAN FEES, AND USURY (p. 243)

- A. Discount Points (1 Point = 1% of the Loan Amount) (p. 243)
- B. Loan Fees (p. 244)
- C. Usury (p. 244)

VII. SECURITY DEVICES (p. 244)

- A. Mortgages (p. 245)
 - 1. Power of Sale Clause (p. 245)
 - 2. Mortgages Compared to Trust Deeds (p. 245)
 - a. Parties (p. 245)
 - b. Title (p. 245)
 - c. Statute of Limitations (p. 248)
 - d. Remedy for Default (p. 248)
 - 3. Trust Deeds are Preferred to Mortgages (p. 248)
- B. Trust Deeds (Deeds of Trust) (p. 248)
 - 1. Trust Deeds are Used in California (p. 248)
 - 2. Parties to a Trust Deed (p. 248)
 - 3. Deed of Reconveyance (Proof of Payment in Full) (p. 250)

VIII. DEFAULT AND FORECLOSURE OF A TRUST DEED (p. 251)

- A. Default on a Trust Deed (p. 251)
- B. Trustor's Right of Reinstatement (p. 253)
 - 1. Reinstatement Period (Three Months) (p. 253)
 - 2. Notice of Sale (21 Days/3 Weeks) (p. 253)
 - 3. The Trustee's Sale (Foreclosure Sale) (p. 256)
 - 4. Judicial Court Foreclosure for a Trust Deed (Rare) (p. 256)
 - 5. Deed in Lieu of Foreclosure (p. 256)
 - 6. Short Sale (p. 256)
- C. Liens Not Eliminated by Foreclosure Sale (p. 256)
- D. Purchase Money Trust Deed or Mortgage (p. 259)

IX. SECOND TRUST DEEDS (JUNIOR TDs) (p. 259)

277

A. Junior Liens ("Private Parties") (p. 259) B. Homeowner Equity Loans (p. 259) C. Holder of a Second Trust Deed (Lender) (p. 260) D. Request for Notice of Default (p. 260) E. Wraparound - All Inclusive Trust Deeds (AITD) (p. 262) X. LAND CONTRACT (CONDITIONAL INSTALLMENT SALES CONTRACT) (p. 262) XI. TRUTH IN LENDING ACT (REGULATION Z) AND OTHER ACTS (p. 263) A. Truth in Lending (p. 263) 1. Annual Percentage Rate (APR) (p. 263) 2. Advertising Terms May Require Additional Disclosures (p. 263) B. Right to Cancel (Federal Notice of Right to Cancel) (p. 268) C. Equal Credit Opportunity Act (p. 268) D. Service Members Civil Relief Act of 2003 (p. 269) XII. CHAPTER SUMMARY (p. 269) XIII. TERMINOLOGY (p. 271) XIV. CHAPTER QUIZ (p. 273) Chapter 9: Financial Institutions I. OUR EVER CHANGING ECONOMY (ECONOMIC CYCLES) (p. 277) A. The Federal Reserve Banking System ("Fed") (p. 279) B. Gross Domestic Product (GDP) (Measures Economic Activity) (p. 280) C. Changing Interest Rates (Affect Real Estate) (p. 280) II. SHOPPING FOR A LOAN (p. 281) A. Loan to Value (Percent of Appraised Value Lender Will Loan) (p. 281) B. Estimate of Settlement Costs (RESPA) (p. 281) C. Credit Scoring (Access to Credit Profile) (p. 281) D. The Loan Application (p. 285) E. Equity (Market Value Less Debt) (p. 285) F. Liquidity (Convert Assets into Cash) (p. 285) G. Opportunity Cost (Cost of Non-Liquidity) (p. 285) III. SOURCES OF REAL ESTATE FUNDS (p. 292) IV. INSTITUTIONAL LENDERS (p. 292) A. Federal Deposit Insurance Corporation (FDIC) (p. 292) B. Federal Savings Banks (Greatest Source of Money for Home Loans) (p. 293) C. Banks (p. 293) D. Life Insurance Companies (p. 294) V. NONINSTITUTIONAL LENDERS (p. 295) A. Private Individuals (p. 295) B. Credit Unions (p. 296) C. Real Estate Investment Trust (REIT) (p. 296) D. Pension Plans (p. 297) E. Mortgage Bankers (Companies) – Secondary Mortgage Market (p. 297) F. Private Mortgage Insurance (PMI) (p. 297) VI. GOVERNMENT-BACKED LOANS (p. 297)

A. FHA Insured Loans (A Division of HUD) (p. 298) 1. FHA Title I: Home Improvement Loans (p. 298)

- 2. FHA Title II: Home Purchase or Build Loans (p. 298)
- 3. Advantages and Disadvantages of FHA Financing (p. 299)
 - a. Advantages (p. 299)
 - b. Disadvantages (p. 299)
- B. Department of Veterans Affairs (VA) (p. 302)
 - 1. VA Loans (Loan Guarantees to Approved Lenders) (p. 302)
 - a. Veteran's Eligibility (p. 302)
 - b. Veterans May be Entitled to More Than One Loan (p. 302)
 - 2. Certificate of Reasonable Value (CRV) (p. 302)
 - 3. VA Loan Provisions (p. 303)
 - 4. Advantages and Disadvantages of VA Financing (p. 303)
 - a. Advantages (p. 304)
 - b. Disadvantages (p. 304)
- C. California Department of Veteran's Affairs (CalVet) (p. 304)
 - 1. CalVet (Land Contract Direct Loans) (p. 304)
 - a. Eligibility (p. 305)
- D. California Housing Finance Agency (Cal HFA) (p. 306)

VII. LENDING CORPORATIONS AND THE SECONDARY MORTGAGE MARKET (p. 306)

- A. Private and Quasi-Governmental Corporations (p. 306)
- B. Secondary Mortgage (Trust Deed) Market (p. 306)
 - 1. Federal National Mortgage Association (Fannie Mae Federal Conservatorship) (p. 306)
 - 2. Government National Mortgage Association (Ginnie Mae) (p. 308)
 - 3. Federal Home Loan Mortgage Corporation (Freddie Mac Federal Conservatorship) (p. 308)
- C. Final Word on Conventional Loans (Risk Loans Without Government Backing) (p. 308)

VIII. MORTGAGE LOAN BROKERING AS A CAREER (p. 308)

- A. The S.A.F.E. Mortgage Licensing Act (Also Referred to as the SAFE Act) (p. 309)
 - 1. Mortgage Loan Originator Licensing Requirements (p. 309)
 - 2. Licensing Standards (p. 309)
 - 3. Continuing Education (p. 310)
 - 4. Maintain Licensure Through NMLS&R (p. 310)

IX. REAL ESTATE BROKER CAN MAKE LOANS (p. 310)

- A. Mortgage Loan Disclosure Statement (Keep on File for Three Years) (p. 310)
- B. Business and Professions Code Divison 4 Real Estate

(Commissions and Other Requirements) (p. 311)

- 1. Article 7 Loan Broker Laws (\$20,000 \$30,000) (p. 311)
 - a. Threshold Reporting (Big Lending \$2,000,000) (p. 312)
- 2. Article 5 Broker Restrictions (p. 312)
- 3. Article 6 Real Property Securities Dealer (p. 312)
 - a. Real Property Securities Dealer Endorsement (p. 312)
- X. CHAPTER SUMMARY (p. 313)
- XI. TERMINOLOGY (p. 315)
- XII. CHAPTER QUIZ (p. 317)

Chapter 10: Appraisal Basics

321

- I. WHAT IS AN APPRAISAL? (p. 321)
 - A. Four Essential Characteristics of Value (p. 323)
- II. THE APPRAISAL PROCESS (EIGHT LOGICAL STEPS) (p. 324)
 - A. Step 1 Defining the Appraisal Problem (p. 324)
 - 1. What (p. 325)
 - 2. When (p. 325)
 - 3. Why (or Purpose) (p. 325)
 - 4. How (p. 326)
 - B. Step 2 Preliminary Analysis (Identify the Data Necessary) (p. 326)
 - C. Step 3 Collect, Verify, and Analyze the Necessary Data) (p. 326)
 - D. Step 4 Highest and Best Use Analysis (p. 327)
 - E. Step 5 Site Valuation (p. 327)
 - F. Step 6 The Three Approaches to Value (p. 327)
 - G. Step 7 Reconcile Value Indicators to Reach a Final Value Estimate (p. 328)
 - H. Step 8 Deliver the Appraisal Report (p. 328)

III. GENERAL DATA AND SPECIFIC DATA (p. 328)

- A. General Data (Region, City, Neighborhood) (p. 328)
 - 1. Region (State is Divided into Regions) (p. 328)
 - 2. City (or County) (p. 328)
 - 3. Neighborhood (p. 329)
- B. Specific Data (Site Analysis Location, Lot, and Improvements) (p. 329)
 - 1. Location (p. 329)
 - 2. Lot (Types and Physical Aspects) (p. 332)
 - a. Cul-De-Sac Lot (Lot A) (p. 332)
 - b. Corner Lot (Lot B) (p. 333)
 - c. Key Lot (Lot C) (p. 333)
 - d. T-Intersection Lot (Lot D) (p. 333)
 - e. Interior Lot (Lot E) (p. 333)
 - f. Flag Lot (Lot F) (p. 333)
 - g. Physical Aspects of a Lot (p. 334)
 - 1. Size and Shape of Lot (p. 334)
 - 2. Lot Design Layouts (p. 335)
 - 3. Slope, Drainage, and Soil (p. 335)
 - 4. View, Exposure to Sun, and Weather (Orientation) (p. 337)

IV. IMPROVEMENTS (p. 338)

- A. House Structure Illustrated (p. 338)
- B. Home Warranty Plans (p. 338)

V. BASIC APPRAISAL PRINCIPLES (p. 344)

- A. Principle of Supply and Demand (p. 344)
- B. Principle of Change (p. 344)
 - 1. Development (Integration) (p. 345)
 - 2. Maturity (Equilibrium) (p. 345)
 - 3. Decline (Disintegration) (p. 345)



4. Revitalization (Lower Prices, Investors Attracted) (p. 346)

C. Principle of Conformity (p. 346) D. Principle of Contribution (p. 346) E. Principle of Substitution (p. 346) F. Principle of Regression (Value Goes Down) (p. 346) G. Principle of Progression (Value Goes Up) (p. 347) VI. CHAPTER SUMMARY (p. 347) VII. TERMINOLOGY (p. 348)	
VIII. CHAPTER QUIZ (p. 350)	
Chapter 11: Appraisal Methods	353
I. COMPARISON APPROACH (MARKET DATA METHOD) (p. 355) A. How to Adjust for a Comparable Sale (Comps) (p. 355) B. Advantages of the Market Data Method (p. 361) C. Disadvantages of the Market Data Method (p. 361) II. COST APPROACH (REPLACEMENT COST METHOD) (p. 361) A. Costs are Both Direct and Indirect (p. 362) B. Steps in the Cost Approach (p. 362) 1. Step 1 – Appraise the Land (Lot) Separately (p. 362) 2. Step 2 – Estimate Replacement Cost (p. 364) a. Replacement Cost (p. 364) b. Three Replacement Methods (p. 364) 3. Step 3 – Estimate and Deduct Depreciation (p. 365) a. Physical Deterioration (Curable or Incurable) (p. 366) b. Functional Obsolescence (Incurable) or Incurable) (p. 366) c. Economic Obsolescence (Incurable) (p. 367) 4. Step 4 – Value of the Property (p. 368) C. Advantages of the Cost Approach (p. 368) D. Disadvantages of the Cost Approach (p. 368) III. CAPITALIZATION APPROACH (INCOME APPROACH) (p. 368) A. Steps in the Income Approach (p. 369) 1. Step 1 – Calculate the Annual Effective Gross Income (p. 370) 2. Step 2 – Complete an Operating Expense Statement (p. 370) 3. Step 3 – Deduct the Related Operating Expenses from Effective Gross Incom Get Net Income (p. 370) 4. Step 4 – Divide Net Income by the Appropriate Capitalization Rate (p. 371) B. Gross Rent Multiplier – GRM (Rule of Thumb) (p. 372) D. Disadvantages of the Income Approach (p. 372) D. Disadvantages of the Income Approach (p. 372) IV. RECONCILIATION OF VALUE (APPRAISAL REPORT) (p. 374) VI. LICENSING, FEE APPRAISERS, AND APPRAISAL ORGANIZATIONS (p. 3	

A. Appraisal License and Certification (California) (p. 375)	
B. Fee Appraisers (p. 378)	
C. Professional Appraisal Associations (Members of the Appraisal Foundation) (p. 378)
VII. CHAPTER SUMMARY (p. 379)	
VIII. TERMINOLOGY (p. 380)	
IX. CHAPTER QUIZ (p. 382)	
Chapter 12: Subdivisions and Government Control	385
I. DOCTRINE OF POLICE POWER (p. 385)	
A. Police Power (p. 385)	
II. THE BASIC SUBDIVISION LAWS (p. 385)	
A. Subdivision Map Act (Enforced by Local City or County) (p. 387)	

III. PUBLIC REPORT (CONSUMER INFORMATION) (p. 388)

B. Subdivided Lands Act (State Law Enforced by the CalBRE) (p. 388)

A. Public Report Receipts (p. 390)

B. Material Changes (Notify Commissioner) (p. 390)

IV. SUBDIVISION DEFINED BY LAW (p. 390)

A. Land Projects (State Law) (p. 392)

B. Out-of-State Buyers (Federal Law) (p. 392)

V. COMMON INTEREST DEVELOPMENT (CID) (p. 392)

A. Planned Development (PD) (p. 393)

B. Community Apartment Projects (p. 393)

C. Condominium (Most Common Type) (p. 393)

1. Timesharing (p. 394)

D. Stock Cooperative (Corporation is the Owner) (p. 394)

VI. SUBDIVISION ADVERTISING (p. 394)

VII. ENVIRONMENTAL LAWS (p. 394)

A. Lead-Based Paint Disclosure (Federal Government) (p. 396)

B. Geological Hazard Zones (p. 396)

VIII. PLANNING COMMISSION (p. 396)

A. Master Plan (p. 401)

IX. ZONING (USE) (p. 401)

A. Zoning Regulation (Controls Use) (p. 405)

B. Nonconforming Use (p. 405)

C. Variance (For Private Hardship) (p. 407)

D. Conditional Use Permit (For Public Benefit) (p. 407)

X. HOUSING, BUILDING, AND HEALTH LAWS (p. 407)

A. State Housing Law (p. 407)

B. Local Building Codes (p. 407)

C. Government Financing Requirements (p. 408)

D. Factory-Built Housing Law (p. 408)

1. Manufactured Housing (p. 408)

E. Contractor's State License Law (p. 409)

F. Health and Sanitation (County Function) (p. 409)



TABLE OF CONTENTS
XI. EMINENT DOMAIN (p. 409)
A. Eminent Domain (Involuntary Taking – Condemnation) (p. 409)
B. Redevelopment (City and County Agencies) (p. 411)
C. Mutual Water Company (p. 411)
XII. FAIR HOUSING LAWS (p. 412)
A. State Law – Unruh Civil Rights Act (No Discrimination in Business) (p. 412)
B. State Law – Fair Employment and Housing Act (FEHA) (p. 412)
C. State Law – Housing Financial Discrimination Act (p. 412)
D. Federal Laws (Federal Civil Rights Act of 1968) (p. 413)
1. Federal Civil Rights Act Expanded in 1988
(HUD Can Initiate Housing Discrimination Cases) (p. 414)
E. The Real Estate Commissioner and "NAR" Also Enforce Anti-Discrimination (p. 416)
XIII. CHAPTER SUMMARY (p. 417)
XIV. TERMINOLOGY (p. 418)
XV. CHAPTER QUIZ (p. 420)
AV. CIMI 1 ER QUIZ (p. 120)
Chapter 13: Taxation of Real Estate 423
I. REAL PROPERTY TAXES (p. 423)
A. Proposition 13 (p. 425)
B. Real Property Tax Base is Transferable (Props 60 & 90) (p. 426)
C. Property Taxes Become a Specific Lien (p. 426)
D. Property Tax Time Table (p. 428)
E. Property Tax Proration Problem (p. 430)
F. Homeowner's Property Tax Exemption (p. 430)
G. Homeowner's and Renter's Property Tax Rebate
(Senior Citizens and Disabled Persons) (p. 431)
H. Disabled and Senior Citizen's Property Tax Postponement (p. 432)
I. Veteran's Exemption (p. 432)
J. Tax Exempt Property (p. 432)
K. Property Tax Appeals (p. 432)
L. Delinquent Tax Sale (Book Sale) (p. 433)
M. Second Sale (After Five Years) (p. 433)
N. Sale to the Public (p. 434)
II. SPECIAL ASSESSMENT TAX (p. 434)
A. Street Improvement Act of 1911 (p. 434)
B. Mello-Roos Community Facilities Act (p. 434)
III. DOCUMENTARY TRANSFER TAX (p. 434)
IV. GIFT AND ESTATE TAXES (p. 436)
A. Federal Gift Tax (While Living) (p. 437)
B. Federal Estate Tax (After Death) (p. 437)
C. No State Gift and Inheritance Taxes (p. 437)
V. FEDERAL AND STATE INCOME TAXES (p. 437)
VI. TAXES ON PERSONAL RESIDENCE (p. 440)

A. Deduction of Interest (p. 441)
B. Deduction of Property Taxes (p. 441)

- C. Deduction of Prepayment Penalties (p. 441)
- D. Sale of a Residence (p. 441)

VII. TAXES FOR INCOME-PRODUCING PROPERTIES (p. 442)

- A. Depreciation of Business Property (Federal and State) (p. 442)
- B. Advantages of "Sale-Leaseback" (Buyer Gets to Depreciate New Building Cost) (p. 443)

VIII. SALE OF REAL PROPERTY (p. 443)

- A. Capital Assets (Gains and Losses) (p. 443)
- B. Federal Income Tax Rates (Progressive) (p. 443)
- C. Accounting for the Sale of Real Estate (p. 444)

IX. INSTALLMENT SALES AND EXCHANGES (p. 444)

- A. Installment Sales of Real Estate (p. 444)
- B. Exchanges Tax-Deferred (Federal and State Section 1031 of the IRS Code) (p. 445)

X. WE ARE NOW TAX COLLECTORS (FEDERAL AND STATE INCOME TAX LAWS – ESCROW USUALLY TAKES CARE OF THIS) (p. 446)

- A. Federal Tax Collection Requirements and Exemptions (If a Foreigner) \$300,000 or More (p. 446)
- B. State Tax Collection Requirements and Exemptions (If a Foreigner or Resident of Another State) \$100,000 or More (p. 447)

XI. OTHER TAXES PAID BY BROKERS (p. 447)

- A. Business License Taxes (City Income Taxes) (p. 447)
- B. Sales Tax (p. 447)
 - 1. Successor's Liability (p. 451)
- XII. CHAPTER SUMMARY (p. 451)
- XIII. TERMINOLOGY (p. 453)
- XIV. CHAPTER QUIZ (p. 454)

Chapter 14: Licensing, Education, and Associations

457

I. CALIFORNIA BUREAU OF REAL ESTATE (CalBRE) (p. 457)

A. Real Estate Commissioner (Appointed by the Governor) (p. 457)

II. REAL ESTATE LICENSE REQUIREMENTS (p. 460)

- A. Who Must Have a License (p. 460)
- B. When a License is Not Required (p. 460)
- C. Obtaining the Four-Year Salesperson's License (p. 461)
 - 1. CalBRE and Electronic Exams (p. 462)
 - 2. Four-Year Salesperson's License (Renewable License) (p. 462)
 - 3. Salesperson's Examination (p. 462)
 - 4. Notification of Examination Results (p. 462)
 - 5. Electronic Fingerprint Scan Requirement (Salesperson and Broker) (p. 463)
- D. Obtaining the Broker's License (Renewable Four-Year License) (p. 465)
 - 1. Broker's Qualifying Experience (p. 465)
 - 2. Broker's Required Education (Eight Courses) (p. 465)
- E. Renewal of License Every Four Years (Salesperson and Broker) (p. 467)



F. Continuing Education (CE) Requirement
(45 hours Every Four Years to Renew Your License) (p. 468)
1. Eight-Hour Survey Course (p. 468)
G. Other Real Estate-Related Licenses (p. 468)
1. Prepaid Rental Service License (p. 468)
2. Real Property Securities Dealer (RPSD) Endorsement (p. 469)
III. BUSINESS OPPORTUNITY BROKERAGE (p. 469)
A. Business Opportunity Sale (p. 469)
B. Bulk Sales (Transfer of Business Inventory – Notice to Creditors Required) (p. 470)
1. Buyer (Transferee) Must Comply with the UCC (p. 470)
C. California Sales Taxes (Selling Retail) (p. 470)
IV. REAL ESTATE LAW AND REGULATIONS (p. 470)
A. Enforcement of Real Estate Law (p. 471)
B. Hearings for License Violations (p. 471)
C. Licenses: Revoke, Restrict, Suspend (p. 471)
1. Child Support Obligations (150-Day License) (p. 471)
V. COMMON REAL ESTATE LAW VIOLATIONS (p. 472)
A. Section 10176: Licensee Acting in a Licensee Capacity (p. 472)
B. Section 10177: Licensee Not Necessarily Acting as a Licensee (p. 473)
C. Regulations of the Commissioner (Found in the Administrative Code) (p. 476)
VI. REAL ESTATE GENERAL FUND (p. 476)
VII. TRADE AND PROFESSIONAL ASSOCIATIONS (p. 476)
A. Local Real Estate Associations (p. 476)
B. California Association of REALTORS® (CAR) (p. 477)
C. National Association of REALTORS® (NAR) (p. 478)
1. Trade Name (p. 478)
2. Code of Ethics (p. 480)
D. Realtist Defined (p. 480)
E. National Association of Hispanic Real Estate Professionals (NAHREP) (p. 481)
F. Asian Real Estate Association of America (AREAA) (p. 481)
G. Other Associations (p. 483)
H. Real Estate Instructor and Licensing Associations (p. 483)
I. No Affiliation Necessary (p. 483)
VIII. CHAPTER SUMMARY (p. 493)
IX. TERMINOLOGY (p. 494)
X. CHAPTER QUIZ (p. 495)
Chapter 15: Real Estate Math 499
I. AREA MEASUREMENT (p. 499)
A. Area of a Rectangular Lot (p. 499)
1. How Do We Get "Square" Measurement? (p. 499)
B. Area of a Triangular Lot (p. 502)
C. Area of an Irregular Lot (p. 502)

1. An Irregular Lot Problem (p. 503)

D. Volume of a Structure (p. 505)

<i>5</i> 25
561
<i>577</i>
584