

LOWRY SCHOOL OF REAL ESTATE

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MISSOURI **LICENSE LAW SUMMARY**



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OVER 40 YEARS OF ACTUAL EXPERIENCE IN THE REAL ESTATE BUSINESS!

INTRODUCTION: The objective of this course is to provide new sales and broker applicants for the state of Missouri with current information dealing with all aspects of the Missouri license law. It is for educational purposes only and neither the school, nor the instructors shall be held accountable for errors in the preparation of the materials, nor the presentation. Please do not construe any part of this document as legal advice. For specific advice, prior to taking any action, consult with an expert, attorney, accountant, etc. of your choice.

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Unit 1:

ACTIVITIES REQUIRING A REAL ESTATE LICENSE:

This is a summary of Chapter 339 of the statutes of the Missouri Real Estate Commission. Chapter 339 is referred to or known as the license law. This booklet is a general summary of the laws and rules under which all licensees must operate in the state of Missouri. For more information please read the complete statutes. They can be found and printed at the Missouri Real Estate webpage: www.pr.mo.gov/realestate.asp

339.010: A 'real estate broker' is any person, partnership, association or corporation, foreign or domestic who **for compensation or valuable consideration** does, offers or attempts to do any of the following. (What this is saying they/you are doing it for others.)

1. Sell, exchange, purchase, rent or lease real estate
2. Negotiates or offers to negotiate the sale, exchange, purchase (buy), rental or leasing of real estate.
4. Lists or offers, or agrees to list real estate for sale, lease, rental or exchange.
5. Buys, sells, offers to buy or sell or otherwise deals in options on real estate
6. Advertises or holds themselves out as a licensed real estate broker (Or their associates) while engaged in the business of buying, selling or leasing real estate.
7. Assists or directing try to procure prospects
8. Assists or directs then negotiation of any transaction to do real estate business.
9. Engage in the business of charging a consumer (unlicensed person) an advance fee for advertising the consumer's property to promote the sale of the property
10. Do any of this acts as an employee of, or on behalf of (as agent for) the owner of real estate for compensation.

Real Estate includes freehold estate and non freehold estates - leasehold. **Freehold** is described as an estate in real property, the exact termination date of which is unknown (means for a described yet indefinite period of time) these estates have a potentially indefinite duration (fee simple) or a period of years incapable of exact determination (life estate). **Non freehold** estates are measured in calendar time - leasehold.

339.710 – 339.860 You do not need a license if:

1. You're selling or leasing your own property and this would include a developer.
2. A licensed attorney in the course of doing their normal attorney duties.
3. If you are acting as an executor, trustee or received under court authority.
4. If you are an auctioneer employed by the owner. This would not allow the auctioneer to continue to market the property if it does not sell when the auction is held.
5. A property manager that works for the owner or broker and only does the following duties:
 - a. shows units
 - b. executes and delivers leases
 - c. assists in clerical tasks

Unit 1 Quiz:

1. A house sitter helped get a buyer for the property they're sitting. The sitter:
 - a. can't get a fee for finding the buyer
 - b. can be paid a commission by the owner of the property
 - c. can be paid a commission by the broker that has the property listed
 - d. can be paid a commission as long as the buyer and seller agree to it.

2. Chapter 339 of the Missouri Statutes is known as:
 - a. rules and regulations of the MREC.
 - b. code of ethics
 - c. the bylaws of the board of realtors
 - d. the MO license law

3. Which of the following would need a license under Missouri license law?
 - a. A person doing cold calling to help the broker find new business.
 - b. An owner selling their own property.
 - c. The executer of an estate selling the estate property.
 - d. An attorney writing real estate contracts.

4. Which of the following activities would require a real estate license?
 - a. An attorney selling property to sell an estate.
 - b. An owner selling his own property.
 - c. A property manager doing leasing and selling for a real estate company.
 - d. an auctioneer employed by the owner.

Unit 2:

DIFFERENT TYPES OF LICENSES:

BROKER:

1. There can only be one broker (supervising) per company.
2. A broker can hold/have other licenses under theirs.
3. The 1 broker for the company holds the licensees of the main office as well as any branch offices.
4. Brokers are responsible for the direct supervision of all licensees (salespersons as well as broker salespersons) and unlicensed persons working for them. They can not let licensees just pay a fee and do their own thing.

SALESPERSON:

1. A salesperson always performs all real estate activities under their broker.
2. Can not manage other licensees or be in any management capacity.

BROKER SALESPERSON:

1. Is a licensee that has passed the broker's exam and is qualified to be a broker but wishes to act as a salesperson for another broker.
2. The MREC holds the broker license and sends the Broker salesperson to their supervising broker.
3. A broker salesperson may act as a branch manager or sales manager providing they are full time and active.
4. May not have/hold licensees under their license. Remember only one broker per company and that one broker holds all licenses.

BROKER-OFFICE; BROKER-PARTNER; BROKER-ASSOCIATE:

1. Used when corporation, partnership or association gets a broker's license.
2. Each qualified partner gets a broker-**partner** license.
3. Each officer gets a broker-**officer** license.
4. Each qualified associate gets a broker-**associate** license.

5. Any of these types of broker's license may act as a branch manager or sales manager but not hold other licenses under theirs.

NOTE: a salesperson can be an officer, partner or associate but **CANNOT** supervise real estate activities of others.

TEMPORARY BROKER LICENSE:

If the main broker of a company dies or becomes incapacitated the MREC can appoint any person, licensed or unlicensed to act as supervising broker.

This is for the sole purpose of finishing all pending business with the company.

Unit 2 quiz:

1. A broker-salesperson may do which of the following?
 - a. Accept commission from other companies for their real estate activity.
 - b. Hold the licenses of other sales associates.
 - c. Manage an office for their broker.
 - d. give legal advice as long as it's within their knowledge level.
2. Each branch office of a principal real estate company is required to:
 - a. have a broker-salesperson, broker-partner, or broker-officer over see the business of the office.
 - b. have the main broker oversee all business.
 - c. have an appointed salesperson under the direct supervision of their broker manage the office.
 - d. be managed by the principal broker.
3. A broker salesperson is going to go to part time - semi retired. He kept his license and is still getting commissions and referral money for his real estate transactions. Is this allowed under the Missouri License Law?
 - a. No, once you retire or go to part time you can't get compensation.
 - b. No, if she isn't full time he has to put his license on inactive status.
 - c. He can get referral money providing it is paid directly to him as he's now retired from his original company.
 - d. Yes, he can still get paid but can't be a managing broker as he's not full time.
4. A branch office under a principal or supervising broker would:
 - a. have to have their own set of licenses.
 - b. operate under the principal broker's license.
 - c. operate under a salesperson who is the manager of the office.
 - d. operate under its own broker's license.

Unit 3:

THE MISSOURI REAL ESTATE COMMISSION:

Who are they? The real estate commission consists of seven US citizens appointed by the Missouri governor. Each must have been a resident of Missouri for at least one year prior to their appointment. 6 of the members are required to have at least 10 years experience as a real estate broker prior to their appointment. 1 person is a voting public member and not have been involved in real estate or have a

spouse that is licensed in real estate. The term of their appointment is 5 years and until their successor is appointed and qualified.

The commissions can do all things necessary to carry into effect the provisions of Chapter 339. They hold regular meetings to review:
applications, complaints, investigations, audits and to transact necessary business.

They may make investigations anytime, Issue subpoenas for people and records in Missouri, Issue rules and regulations, go to any court of competent jurisdiction and request that its orders are enforced, fine licensees or non licensees up to \$2,500 per violation with a maximum of \$25,000 for 10 continuous days of violation

The MREC does not have direct jurisdiction over non licensees but may file an appeal to get a restraining order to stop non licensed people from doing real estate activities requiring a license.

The MREC will not get involved in commission disputes between licensees.

Unit 3 Quiz

1. If the MREC gets a complaint against a broker, they can do which of the following?
 - a. subpoena records from a broker in Kansas.
 - b. subpoena all of a Missouri broker's business and personal records.
 - c. get a copy of the business plan of a Missouri licensee with a place of business in Arkansas.
 - d. Subpoena all of the Missouri broker's business accounts and records.
2. John Evans lists and sells some property for someone else for a reduced fee. He isn't licensed. What can the MREC do about stopping him?
 - a. Fine him.
 - b. Ask the attorney general to have him arrested.
 - c. Go to court and get a restraining order against him.
 - d. Revoke his license and forbid him to do it again.
3. Good Times Realty and Always Right realty get into a disagreement over a commission split. They both filed a complaint with the MREC. What will be the MREC's course of action?
 - a. They'll report them both to the Missouri Attorney general's office.
 - b. They won't get involved as it is a commission dispute between licensees.
 - c. They will have both parties come to Jefferson City and try to mediate the problem.
 - d. The MREC will ask the AHC (administrative hearing commission) to determine the best course of action of the MREC to take.
4. Which of the following is true in regards to Commissioners?
 - a. You have to be a United States citizen for at least the last 5 years.
 - b. You have to be a high school graduate.
 - c. You have to be a Missouri citizen for at least 1 year.
 - d. You can't be a licensed real estate person.

Unit 4:

GETTING A LICENSE AND RENEWING::

There are two ways a person may become licensed in the State of Missouri.

Not previously licensed people have the following requirements:

Salespeople and broker applicants will need a 48 hour pre exam course. Salespeople will also have to successfully complete a 24 hour Salesperson practice course.

After completion of the pre exam course applicants will take a Missouri state test. It is a two part test. A score of 75% is required to receive a passing score.

Sales applicants will have 100 questions (plus 5 pre test questions that don't count on your score) on general content and 40 questions (plus 5 pre test question) on state license law information.

Broker applicants will have:

The general part of the exam will consist of 9 simulation problems. 8 count against your score. 1 is pretest.

The state portion will be 75 scored multiple choice questions with 5 pretest questions.

For sample questions and simulation problems please visit www.goAmp.com. There are also sample questions in the candidate's handbook.

Getting a license by "like kind requirements meant".

If a person is or ever has been licensed to sell real estate in another state they can get a history of their license(s) from each state and be exempt from taking the general part of the Missouri state test. They will still have to take the state portion of the test and pass it with 75%.

Requirements for all licenses include:

To be eligible for a license in Missouri an applicant has to be at least 18 years old. You do not have to be a United States citizen or be a high school graduate.

To be eligible for a broker's license you have to show that you have been licensed for at least 2 years.

If applicants take the state exam and pass one part but not the other part they can go back and take the part they didn't pass over anytime within 6 months, providing they also make application for their license and salespeople must also complete the practice course, within the same 6 months. This date is 6 months from the date of completion on the pre exam certificate.

Once the test has been passed the testing center will give each applicant the application needed. It will have to be completed, signed by the prospective broker (for sales applicants) and sent to the MREC with a photo of the applicant (pass port type).

The MREC may require court documents or other information before issuing or denying a license.

20 CSR 2250-3.010 #2: After October 1, 2010 all new applicants will also have to be fingerprinted. This will be done through the Missouri State Highway patrol or its approved vendor at the applicant's expense. These fingerprints will be used for a Missouri and FBI background check.

All broker's licenses have to be renewed by June 30th of even numbered years. All salesperson's licenses have to be renewed by September 30th of even numbered years. **There is no grace period.** If you do not complete your continuing education hours and renew on time you will be required to pay \$50 per month in late penalty (\$200 maximum) and complete the 24 hour practice course to activate your license. It will be expired until this is accomplished.

If a broker fails to renew their license, any salespeople under them will not be renewed.

All licenses are issued to the broker. They are required to be kept in the main office or the branch office the salesperson works from. They must be displayed upon request. A salesperson can only work for one broker. This also means that a salesperson can only be paid by one broker.

Unit 4 quiz:

1. In June an applicant for licensure finished their pre exam course and got the school certificate dated June 16th. By what date do they have to meet all the requirements and make application for their license?
 - a. September 16th.
 - b. October 16th.
 - c. November 16th.
 - d. December 16th.
2. If your license expires which is correct?
 - a. you will have to take the pre exam course and pass the test again.
 - b. you will have to complete the 24 hour practice course.
 - c. you will have to make a written explanation explaining why you're late.
 - d. you won't have to pay any fines.
3. When you apply for a Missouri license which of the following can the MREC require:
 - a. a photo copy of your birth certificate.
 - b. a copy of your driver's license.
 - c. either a high school diploma or GED.
 - d. a photo.
4. A broker failed to renew her broker license on time. Which is true?
 - a. Salespeople can continue working through the end of the year to give the broker more time to get renewed or them to find a new broker.
 - b. Salespeople can not renew their license until the broker does.
 - c. The broker doesn't have to take any courses just pay the fine and meet the other requirements.
 - d. The MREC will hold a sales license for up to 60 days.

Unit 5:

MREC REFUSAL OF LICENSE:

The commission may refuse to issue a license to any person, partner, officer or controlling stockholder who is known by it to have been found guilty of:

Forgery

Embezzlement

Obtaining money under false pretenses

Extortion

Criminal conspiracy to defraud or any other like offense

Or to any association or partnership of which the person is a member or to any corporation of which the person is an officer or in which as a stockholder the person has or exercises a controlling interest either directly or indirectly.

A license will also be revoked or not issued for the following offenses:

Any dangerous felony including murder in the first degree:

The following sexual offenses:

Rape or statutory rape including forcible sodomy

Child molestation or any other sexual acts or pornography with a child

Family offenses including:

Incest, abandonment of a child

Child endangerment

Child abuse

Sexual performance using a child

Trafficking in children

Child pornography

Mortgage fraud

If a person under this section has their license revoked they can appeal to the AHC (administrative hearing commission) within 90 days. If an appeal is not made within 90 days the person waives all rights to appeal.

If a license is revoked or refused the MREC must tell them in writing why. They will also be told that they have the right to file an appeal with the AHC.

Unit 5 quiz:

1. If your license is refused or revoked you can appeal to whom?
 - a. The MREC.
 - B The governor of Missouri
 - c. The attorney general of Missouri
 - d. The AHC.
2. Which of the following is grounds for denial or refusal of a license?
 - a. Armed robbery
 - b. embezzlement of money
 - c. Child endangerment
 - d. all of the above
3. What length of time do you have to appeal if your license is denied or revoked?
 - a. 30 days
 - b. 90 days
 - c. 2 months
 - d. 1 year

Unit 6:

TEMPORARY BROKER'S LICENSE:

In the event of the death or incapacity of the supervising broker, or one or more of the licensed partners, officers, or associates of a real estate partnership, corporation, or association whereby the affairs of the broker, partnership or corporation can't be carried on the MREC can issue a temporary broker's license to the legal representative of the broker or to any person, licensed or not licensed for the **sole purpose** of settling all of the affairs of the broker. This license will be for a set period of time. This means they will act as the broker to close all existing sales contracts and wind up the affairs of the broker under the supervision of the MREC.

Unit 6: quiz

1. Broker Mary Ann was killed in a car wreck. The MREC appointed a temporary broker to take her place. What was the purpose of the temporary broker?
 - a. to continue to market the listings of the company/broker.
 - b. to train the sales associates so they can make more money.
 - c. to keep the office going until a new broker or buyer of the company can be found.
 - d. to wind up the affairs of the broker including closing existing sales contracts.

Unit 7:

NON RESIDENT LICENSES:

To be qualified to get a Missouri license if you live in another state a person has to get a certificate from their home state and any other state they're licensed in showing their license is in good standing. If they no longer have a license in a previous state they will still need the certification showing they were in good standing when they no longer kept the license. Salespeople will have to become affiliated with a licensed Missouri broker. The broker can be a resident or nonresident.

Sales applicants must complete the 24 hour Missouri practice course, take the state part of the test, have a back ground check done through the Missouri contractor selected by the MREC, and make application for the license. All requirements must be done within a 6 month period.

Broker applicants are required to take the state portion of the Missouri license law test, show they have 24 of the last 30 months experience, complete the back ground check and make application within a 6 month window.

The back ground check portion of the requirements is effective as of January 1, 2011.

Unit 7 quiz:

1. Which of the following is true in regards to getting a license if you live in another state:
 - a. you have to move to Missouri.
 - b. you have to take the entire Missouri license law test.
 - c. starting January 1, 2011 you have to be fingerprinted and submit the results to the MREC.
 - d. the broker has to be a Missouri resident.

Unit 8:

PLACE OF BUSINESS:

Every residential broker unless they are inactive or those not actively engaged in real estate business, are required to have a "regular" place of business. It has to be open to the public during regular business hours or at regular stated intervals. A salesperson can't be associated with a broker that does not maintain a regular place of business or one that is not active in real estate business. A broker has to have a sign of sufficient size to identify it and it has to have the brokerage name outside the office.

If a broker wants to use a fictitious name it must be registered with the Secretary of State and a copy has to be sent to the MREC.

If there is any change in business or personal name or address the broker is required to notify the MREC within 10 days **in writing!**

All branch offices have to operate under the same name and license as the primary office. This means there is one main broker. Each office has to have a manager who devotes full time to management.

The manager has to be a broker, broker-salesperson, broker-officer or broker-partner. Any sales manager must also have a broker's license.

A salesperson CANNOT act as a manager in any capacity.

All support staff, clerical-secretary are not required to be licensed but they can only do office duties. They **cannot** solicit customers, show property or negotiate contracts or do any other activity that requires a license.

Unit 8 quiz:

1. The secretary of XYZ realty showed a property listed by the broker to a customer. Which of the following is a true statement?

- a. The secretary can receive a commission since it is listed in her company.
- b. This is a direct violation of the license law.
- c. The company can make a contribution in her name to a person of her choice.
- d. This is all part of her normal office duties so it's ok.

2. Broker Jones is retiring and moving to Texas to enjoy the warmer weather. His top salesperson wants to continue to list and sell real estate under his license and is really quite capable. Is this permissible?

- a. Since he has so much experience the MREC will allow it.
- b. No, the broker has to be full time management to continue doing business.
- c. It's fine as long as the broker maintains his license.
- d. No, because the broker can't live out of state and keep his license.

3. Which of the following duties can an unlicensed assistant do for the broker?

- a. Show properties to potential customers.
- b. solicit business by phone.
- c. Give out the list price and other information as long as she tells them she's not licensed.
- d. collect rents brought to her at her desk.

4. A broker that supervises a branch office has to be which of the following?

- a. A licensed salesperson for at least 2 years.
- b. A full time broker that does not list or sell property.
- c. a licensed salesperson who has been trained as a manager.
- d. some type of a broker. (broker-sales; broker-partner or broker-officer).

5. John has passed the state pre license test. His license hasn't arrived yet. Which of the following can he NOT do?

- a. Write ads and submit them to the newspaper.
- b. answer the phone and forward property calls to the agent on duty.
- 3. Make deposits to the broker's escrow account.
- 4. Give the address of an advertised property to a person that calls in.

6. Melody has just been issued her broker's license. Her office won't be ready for a couple of weeks. Can she do business out of her home until it's ready?

- a. No, as she must have a place of business.
- b. No, as the secretary of state has to approve it.
- c. Yes, if she notifies the MREC in advance.
- d. Yes, but only on a referral basis.

7. You pass your test and have made application for your license. Which of the following are you allowed to do?

- a. Give the broker the information on a property so they can give it to a customer.
- b. pass out your business cards, just make sure and tell them to wait a few days.
- c. go on and list a property with the understanding that it won't take effect until your license arrives.
- d. Refer business to another salesperson but make them promise to pay you a referral fee after your license gets here.

Unit 9:

EDUCATION: CONTINUING EDUCATION:

All Missouri licensees are required to complete 12 hours of continuing education each renewal period. Broker's renew on June 30th of even numbered years and sales people renew on September 30th of even numbered years. You have to be renewed and have the license issued before you can do any real estate business. If you have it postmarked you will not be considered late but you will have to wait for the license to be issued to do business. All licensees are required to do one core course. These are selected and approved by the MREC. They can do the other 9 hours by completing any approved courses. The MREC will not give credit for non real estate courses, business or computer skills courses, salesmanship courses, or sales meetings in the broker's office. The course can be a videotaped training session under the direct supervision of an instructor providing it doesn't account for over 50% of the course time.

New Salespeople people must do a salesperson practice course in addition to the pre exam course.

All courses have to be attended 100% of the time.

If a licensee fails to do their continuing education and make application by their due date their license will expire and they will have to take the 24 hour practice course and pay a late penalty of \$50 per month to a maximum of \$200. If the course is taken outside MO and not previously approved by the MREC the licensee will have to request credit.

Unit 9 quiz:

- 1. How often does a license have to do continuing education hours in MO?
 - a. every year
 - b. every 18 months
 - c. every 2 years
 - d. every 3 years.

2. How many hours are required?
 - a. 6
 - b. 9
 - c. 12
 - d. 24
3. Under which of the following could continuing education be granted for a course?
 - a. A non MREC approved course taken in another state and submitted to the MREC for approval.
 - b. If it good listing technique training in the broker's office.
 - c. Providing it is good marketing techniques training.
 - d. If it covers good salesmanship procedures.

Unit 10:

TRANSFER OF LICENSE OR GOING INACTIVE:

If a salesperson is terminated by their broker, the broker has 72 hours to send the license to the MREC. The broker also must give the salesperson a receipt with the date and timed receipt of a salesperson submits a letter of termination/resignation to the broker. The salesperson then has 6 months to either transfer their license to another broker or place their license on inactive status.

Once a licensee has terminated their license or is terminated by their broker they can't do any real estate business until the transfer is complete or they receive written notification from the MREC.

All listings a salesperson gets are the property of the broker. When a salesperson changes brokers/companies their listings stay with the broker they're leaving. If they have an agreement that the salesperson will get paid when their listing(s) sell the broker can pay them directly. This is the only way a salesperson can get paid directly rather than through their sponsoring broker.

If you transfer your license you can start work immediately as long as all transfer documents are sent in one envelope over-night, registered, certified mail to the MREC.

If a licensee goes inactive they are required to do it on a special form. The MREC holds the license and the licensee cannot do any real estate business. The licensee still has to renew the inactive license every 2 years and pay the renewal fee to keep from losing their license. They don't have to do continuing education while they are inactive.

To reactivate the license they must take a 24 hour practice course and apply for the license through their sponsoring broker within 6 months of completing the course. They do not have to take the state examination.

Unit 10 quiz:

1. Which statement is correct concerning a salesperson transferring to a new company.
 - a. The salesperson can take all the listings with them to the new company.
 - b. the listings belong to the broker they're leaving so stay with that company.
 - c. It's actually up to the new broker as to if they want the listings or not.
 - d. The two broker's by written agreement can transfer the listings to a different company.
2. If a salesperson decides to go inactive what happens to their license?

- a. The license remains with the broker.
 - b. they can take the license home until they're ready to go back to work.
 - c. the license will be held by the MREC until they decide to reactivate.
 - d. the licensee can only be paid referral fees while they are inactive.
3. Joe got his license but only kept it for a couple of months. He went inactive and didn't do any real estate for 13 months. When he decides to reactivate what does he need to do?
- a. Just make application as it's been less than 2 years.
 - b. Take a pre license course and apply for the license within 60 days.
 - c. Take the continuing education for their renewal period and apply for the license.
 - d. take the 24 hour practice course and apply for the license within a 6 month window.
4. A broker went inactive over a year ago. What do they have to do to reactivate?
- a. take the 48 hour pre exam course.
 - b. take the 60 hour broker pre exam course.
 - c. take their continuing education required hours.
 - d. take the 24 hour practice course.
5. If you put your license on inactive which of the following is true?
- a. you have to do your hours and renew every even year.
 - b. you have to renew at your regular renewal time.
 - c. you have to do continuing education hours once a year.
 - d. take the state exam.
6. Julie worked for Broker Jim and changed to Broker Betty. One of the listings she got when she worked for Broker Jim sold. Which is true?
- a. Betty will be the one to pay her commission as she's her broker now.
 - b. Both brokers would split the money and decide how much to pay Julie.
 - c. Julie can't get paid as she doesn't work for Jim any longer.
 - d. Jim can pay her directly as she listed the property while she worked for him.

Until:

OBLIGATIONS TO CUSTOMERS AND CLIENTS PER LICENSE LAW:

Licensees must be extremely careful to disclose any conflicts of interest they have if they are involved in buying, selling, leasing real estate directly or indirectly. This includes disclosing if you are a relative of either party to the contract. If a licensee buys, sells or leases real estate for someone else they must also disclose in writing any ownership they have or will have.

It is illegal for a licensee to **require** that either party to a contract use a specific lender, title company, insurance company/agent or escrow company.

If a licensee is to receive commission for insurance commission or loan commissions it must be disclosed on a separate form in writing.

It is the licensee's responsibility to check out the property and disclose all **material facts** to potential buyers. Adding **as is** to a contract **does not** relieve the licensee of the obligation to **disclose all known material facts** to the parties of the contract. All licensees must disclose all material facts they know or that they should have known.

Unit 11 quiz:

1. A licensee is showing property to a potential buyer. Which of the following does he/she have to disclose?
 - a. The property is in a flood zone.
 - b. How much the seller paid for the property.
 - c. how much the total commission to be paid is.
 - d. The marital status of the sellers.
2. A licensee called on a for sale by owner property. When he called he told the owner that he is licensed and is looking for property for himself. Is this adequate notification?:
 - a. Yes, since he told the seller up front he is ok.
 - b. No, the agent must get the seller's acknowledge of his status.
 - c. no, the agent must get the discloser in writing.
 - d. Yes, verbal or written disclosure is ok.
3. You're showing property to your future step father. It is a surprise for your Mother. He knows it is perfect so pays full price for the property with terms agreeable to the seller. You tell the seller that you're an agent but you don't disclose that this is a home for your mother and her new husband. Is this a violation of the license law?
 - a. No, as long as you reveal that you're a licensee, you're ok.
 - b. No, they aren't married yet so it doesn't matter.
 - c. yes, you can't work for a future relative.
 - d. yes, this is a violation of the license law as you didn't reveal the interest you would have in the property.

Unit 12:

BROKERAGE SERVICE AGREEMENTS:

A licensee must have a written consent of the seller before they can advertise, put a sign on the property offering it for sale or for lease, or show the property. This will be either a written seller's agency agreement, seller's transaction brokerage agreement or other written authorization to show the property.

All seller listings must include the following elements:

1. the price
2. the commission to be paid including bonuses
3. a definite beginning date
4. an expiration date (no automatic extensions)
5. the licensee's duties and responsibilities

6. a statement which permits or prohibits the designated broker from offering sub-agency.
7. a statement either permitting or prohibiting the licensee from acting as a disclosed dual agent.
8. a statement either permitting or prohibiting the licensee from acting as a transaction broker.
9. notice of the permission or refusal allowing the broker to cooperate and offer compensation to other brokers.
10. a acknowledgement that the consumer received the Broker Disclosure form prior to either signing the agency agreement or prior to the licensee getting any personal or financial information. Whichever came first.
11. signatures of the owners and of the listing broker or listing agent with the permission of the broker.
12. the type of listing it is. (exclusive right to sell or exclusive agency) **remember net listings are illegal.**
13. a complete legal description
14. a copy must be given to the customer in a timely manner.

Buyer agency agreements must include:

1. must be in writing
2. must have a definite expiration date.
3. must have the signatures of the buyer(s)

SALES CONTRACTS:

All offers must be submitted promptly. If there is already a contract on the property and another offer is made it must be submitted promptly as well and identified as a backup contract.

Once a contract is accepted by all parties copies must be delivered to all parties to the contract.

If there are any changes made to the contract the changes must be initialed and dated by the buyer and seller.

The date of final agreement has to be included in the contract. This can be done by specific acknowledgment of the final acceptance date or date of the last signature or initial to the contract.

STANDARD FORMS

Licensee's should not act as an attorney. This means you can use standard forms that only require filling in the blanks. But you cannot draft a complete contract or document. You can also only do contracts when acting as an agent for the buyer or seller. You cannot do contracts for the general public.

CLOSING STATEMENTS (HUD 1)

It is the responsibility of the listing broker to see that both the buyer and seller receive a complete detailed closing statement. Both the listing broker and selling broker are also required to keep the complete closing statement in the file.

Title companies prepare closing statements but the broker is still required to check the statement for accuracy and see that they are delivered.

Sales associates (listing broker) can handle closings only under direct supervision of the salespersons' broker.

RETENTION OF RECORDS:

All of the following must be keep in the broker's office files for a minimum of 3 years:

All escrow records

business records

all contracts (this includes contracts that did not reach agreement or close)

all closing statements/documents

any correspondence relating to the transaction

The records/files must be available for inspection by the MREC during normal business hours. The MREC does not have to make an appointment. They may inspect at will.

Until 12 quiz:

1. Broker Clayton received an offer on his listing on Lecompton street. The seller has seen the offer and is considering it. Another offer for less money comes in. What should Clayton do?
 - a. Wait until the seller makes a decision on the first contract.
 - b. Present the offer immediately.
 - c. don't worry about it. It's less money so you know the seller won't accept it.
 - d. Present the second offer as a backup.
2. Which of the following is not allowed to be a part of an exclusive agency listing agreement?
 - a. Notification that this is an exclusive right to sell agreement.
 - b. A way of determining an automatic extension to the agreement.
 - c. The complete address when the legal description is not available.
 - d. Commission to be paid.
3. Two of your friends have agreed to do a sale of real estate between them. They don't want to list the property or sign an agreement with a broker. They want you to write the contract for them. What should you do?
 - a. ask your broker to write the contract
 - b. tell them you'll only do it for a set fee.
 - c. refuse to do it as you don't have a written agency agreement.
 - d. perform your normal service for a reduced fee since they are your friends.
4. You are involved in a transaction where the buyer is going to lease the property for 3 months with an option to purchase. Which is the best way for you to handle this transaction?
 - a. Fill in the lease since they're not buying right now.
 - b. Send all the documents to an attorney and have them fill in the forms.
 - c. Do the option but the lease is not required as it is only for 3 months.
 - d. Fill in the blanks on both the lease and the option and have your broker review it.
5. You have the opportunity to list a prime piece of property for a great price. The seller says he will pay you a commission of \$5,000 for any sale up to \$85,000. If the sales price is over \$85,000 any excess is to go to the broker. Is this legal?

- a. This would be considered a net listing and is illegal.
 - b. Yes, commissions are always negotiable.
 - c. Yes this is a flat fee listing with a bonus and that's ok.
 - d. No, you can't do a fixed rate listing fee.
6. Under which of the following would there be an agency agreement in place?
- a. between a seller and their agent.
 - b. between the MREC and the seller.
 - c. between a listing broker and a cooperating broker.
 - d. between a seller and the broker.
7. Two old friends. both brokers have been in business together for about 10 years. they have decided to split up and each take one half of the company listings with them. Can they do this?
- a. yes as long as they agree in writing between themselves.
 - b. Yes with the approval of the MREC.
 - c. Yes as long as they get the written permission of all parties to the listings
 - d. All the sales associates can take their listings to which ever company they go to..

Unit 13:

ESCROW ACCOUNTS:

Each broker is required to have an escrow account unless they are exempted by the MREC. All money belonging to others has to be deposited in the account. It must be a checking account in either a bank, savings and loan or credit union. It must be in Missouri or an adjoining state. It can be interest bearing but the fact that interest is being paid must be disclosed in writing stating who is getting the interest.

Earnest money does not have to be money. If it is agreeable to the seller a buyer can use a car title, promissory note or any other items of value.

When a sales contract is written the licensee it must be given to their broker immediately and the broker has 10 business days to deposit all money belonging to others in an escrow account. The escrow account can have up to \$1,000 of the broker's personal or business funds for maintenance of the account.. Any amount over this would be considered commingling and is illegal. It would also be commingling if the broker puts the money in their business or personal account.

A broker can pay money from the escrow account on behalf of a buyer and seller.

If there is a dispute over the disbursement of earnest money the broker must hold the funds in the account until broker gets a written release from all parties or a court order.

In the event that neither party goes to court within 60 days nor signs a release, the broker, based on a good faith decision and after giving 15 days written notice by certificated mail to all parties, may pay the money to the party opposite the party that didn't perform.

After 1 year, if there is no resolution, the broker must send the disputed earnest money to the Missouri state treasury.

Unit 13 quiz:

1. When would a broker be commingling?
 - a. If the broker puts 3 different checks in the same account.
 - b. A broker pays for a repair to the property out of the escrow account.
 - c. The broker pays the secretary's salary out of the business account.
 - d. The broker put earnest money in his business account.
2. Which of the following would be legal according to Missouri license law?
 - a. A salesperson accepted earnest money with a sales offer on behalf of his broker.
 - b. A broker let an unlicensed assistant show a property for them.
 - c. An unlicensed secretary negotiated a contract for the broker.
 - d. Letting a salesperson do a closing on behalf of the seller without the broker's supervision.
3. How long does a salesperson have to deliver earnest money to their broker?
 - a. 5 business days
 - b. 10 business days
 - c. immediately
 - d. 7 business days
4. Salesperson Jim is working with a buyer who wants to write an offer on a property he showed him. He ask if he can put up a title to his Harley motorcycle. Is this acceptable?
 - a. Sure as long as it's paid off and worth at least \$500.
 - b. Yes, as long as the seller agrees to it.
 - c. No, most people don't like motorcycles.
 - d. Earnest money has to be cash or good check.

Unit 14:

COMMISSIONS AND RELATIONSHIPS WITH OTHER LICENSEES:

A Missouri broker can pay a referral fee to a broker license in Missouri or another state. The broker can't be on inactive status. If the broker or licensee is inactive they are not considered licensed. Licensees can't pay commissions or finder's fees to anyone not licensed. If a person is not licensed they can't sue for a commission. If they were licensed at the time of the sale and it was performed according to the listing agreement they can sue. Salespeople are paid only by their broker.

A licensee can't negotiate directly on a property listed with another brokerage firm. If an owner contacts a licensee directly, without any direct or indirect solicitation from the licensee, the licensee can take the listing to take effect after the current listing expires.

Unit 14 quiz:

1. An attorney refers a listing to a real estate company. Can he receive a referral fee?
 - a. Yes if he has a real estate license.
 - b. Yes since he is an attorney working for his client.,
 - c. Attorneys aren't allowed to receive referral fees.
 - d. Only if it is the standard attorney's fee.

2. Jane had an exclusive listing on a property on Dell street. Shortly after she listed it Max from another company contacted the seller and said he had a buyer that would be willing to buy it once the present listing expired so he could save a little money. If not what violation is it?
- Misrepresentation
 - allowable as long as they wait for the listing to expire.
 - they should go ahead and terminate the listing now
 - it is a violation of the license law.
3. JR has a listing. Craig, a salesperson with Buy Right realty, sold the property as a sub agent. Who will pay Craig's commission?
- The buyer
 - the seller
 - the listing broker will pay Craig's broker who will pay Craig.
 - he doesn't get paid since he wasn't the listing agent.
4. Betsy has a listing with seller Jones. She brought him a contract at full price with all terms agreeable according to the listing contract. The seller decided not to sell as he couldn't find a house he liked. Is Betsy due a commission?
- No because it didn't close.
 - No because the seller didn't sign all the papers.
 - Yes, as the broker brought a buyer according to the agency agreement.
 - No, the seller has a right to change their mind.

Unit 15:

ADVERTISING AND PROMOTIONAL PRACTICES:

One of the important considerations in advertising is disclosure. If a licensee is transferring their own property and the property is not listed they must include notice that it is owned by a licensee in all advertising. It also has to be disclosed in the sales contract.

If it is listed they must put in the ad agent owned and also include it in the sales contract. All company advertising has to include the name of the brokerage with contact information. It can't be a blind ad. This means it can't have only a P O Box, address or phone number. If the salesperson wants to put their own name and phone number on the advertisement that's permissible providing it also includes the brokerage name and contact information.

If a company chooses to advertise offering a guaranteed sale the ad must also advise the seller that other costs and conditions apply. Advise the seller to inquire about these costs and conditions.

The guaranteed sales agreement must be in writing and contain all of the conditions that apply.

If a company owns a franchise they are required to send a copy of the franchise agreement to the MREC. All advertising can be done using the franchise name but must also include the name of the individual that owns the business.

All contracts and agreements must include notice that the franchisor is not liable for the broker's actions.

Unit 15 quiz:

1. A salesperson is renting a house he owns. Which of the following would be a legal way of advertising it.
 - a. Nice 4-2-2 for rent call 333-0990
 - b. Super 4-3-3 ranch for rent for \$650 per month. call 333-0990 for info.
 - c. 4-2-2 ranch for rent. Contact Jones realty for more info.
 - d. For rent by owner - agent: 333-0990
2. The broker of Simms realty has a building he owns for sale. He lists it with his company. How can he legally advertise it for sale?
 - a. For sale by broker/owner
 - b. Offered for sale by Simms realty. call 332-7887.
 - c. for sale call 332-7887
 - d. for sale by owner.

Unit 16:

WHAT REASONS CAN CAUSE YOUR LICENSE TO BE SUSPENDED OR REVOKED - HEARING PROCEDURES/PENALTIES FOR VIOLATION:

The commission may, upon its own motion and shall if it receives a written complaint filed by any person investigate the complaint. The licensee the complaint is made against can be requested to answer the complaint in writing and a copy will go to the complainant. The MREC can hold investigatory hearings and subpoena people and records in Missouri. If they determine the license is innocent they will dismiss it. If they think the licensee is guilty they will send it to the AHC (administrative hearing commission). The AHC will have a new hearing and make a decision, If they find the licensee guilty they will recommend punishment and the MREC will decide the punishment. MREC will mail the licensee the results found. MREC can file a complaint in any court of competent jurisdiction. Penalties for the following may include:

By the MREC:

- a. suspension of the license (for a specified period of time)
- b. revocation of the license
- c. civil fines up to \$2,500 per offense with a maximum of \$25,000.

By the courts:

- a. It is a class B Misdemeanor
 - b. both civil and criminal penalties may be applied.
1. If you commingle funds. Put money of others with your personal or business funds. Money has to be deposited in a special account. If you take money from an escrow account before closing, without the consent of all parties or without a court order.
 2. If you misrepresent facts, don't disclose material facts or use false advertising.
 3. If you don't account for any money within a reasonable time for money, valuable documents or other property of others you get that belong to others.
 4. If you write dual contracts on a property. This would involve one contract for the true price and terms another contract showing a higher price to allow the buyer to borrow more thus deceiving the mortgage company or lender.
 5. You have to give copies of all contracts signed by a buyer or seller to them when they sign them.

6. If you act as agent of both the seller and the buyer (dual agency) without the written consent of both parties you are guilty.
7. It is illegal to pay money to an unlicensed person for any actions that require a license.
8. You can't guarantee future profits to a buyer of property.
9. Any conviction of state or federal real estate laws is cause for suspension or revocation of your license. These include:
 - a. any offense related to brokerage
 - b. fraud
 - c. acts of violence
 - d. moral turpitude
 - e. sexual crimes
10. If you lie on your license application. (Fraud) This would demonstrate untrustworthy behavior, improper dealings, bad faith and incompetence.
11. A licensee can't be compensated by or represent any broker other than the broker that holds their license.
12. It is illegal in Missouri to offer prizes, money, gifts or other valuable consideration as inducement to get customers or clients to purchase or sell property when the awarding of the inducement is contingent upon their buying or selling through you.
13. You can't place a sign or advertise a property offering it for sale or rent without the written consent of the owner or their duly authorized agent.
14. Violation of or being party to the violation of any provisions of the license law.
15. Failing to notify the seller in a timely manner of all written offers received on their property **unless** instructed in writing by the seller.
16. If you are disciplined by another state MO can discipline you for the same act.
17. Use of a controlled substance (drugs) is cause for disciplinary action.

Unit 16 quiz:

1. A broker or their authorized agent can act as a dual agent in which of the following instances?
 - a. Never, it is unlawful in Missouri.
 - b. If the buyer is aware of it.
 - c. If the seller agrees to it.
 - d. If both seller and buyer give written consent.
2. Mr. Jones listed his property with broker Able. He told him he was asking \$125,000 but would negotiate a good offer. Broker Able told a buyer that Mr. Jones was in fact negotiable. Was this a violation of his fiduciary duties to Mr. Jones?
 - a. Yes, he cannot tell the buyer that the seller will accept less. This is a violation.
 - b. Yes, it was a misrepresentation to the buyer and seller both.
 - c. No, it was ok as he was a dual agent.
 - d. No, the seller gave him the information so he can share it.

3. A broker writes a contract for the full asking price of \$65,000 for a buyer. The buyer is short \$2,500 of the down payment so he writes a second contract for \$67,500 to include the additional money needed for down payment. Is this ok?:
- it's permissible as long as the seller and buyer are aware of both contracts.
 - as long as it's in writing it's ok as it's out in the open.
 - this would be considered fraud according to MO license law as you are helping the buyer too much.
 - this would be fraud according to the MO license law as you cannot write two contracts to deceive the lender and let the borrower borrow more money.
4. Which is true regarding a "Net" listing?
- A net listing is ok as long as you explain it to the seller.
 - A net listing is illegal in Missouri.
 - It is legal in Missouri as long as you provide the seller with a closing statement.
 - As long as it is in writing it's ok.
5. You're holding an open house on one of your company listings. Which of the following would not be considered an inducement to buy?
- You'll buy a refrigerator for whom ever buys the house.
 - You'll pay for an all expense paid trip to Cancun for the buyer.
 - You have balloons, pens, and refrigerator magnets available for everyone that goes through the open house.
 - You offer a \$500 gift certificate to the buyer at closing.
6. Which of the following would be a direct violation of the license law?
- Telling prospective buyers that property values are going to increase by at least 10% in the next year due to subdivision improvements being made.
 - Acting as a dual agent with written permission of the seller and buyer,
 - A broker has \$590 of his own money in his escrow account.
 - Letting the Closing office give copies of the final closing papers to both the buyer and seller when you're at the closing.
7. If the MREC gets or makes a complaint and believe the licensee has violated the law they can file a complaint in:
- the nearest district court
 - any court of competent jurisdiction
 - the court in the county where the violation happened.
 - the state appellate court.
8. A licensee is being investigated. If it is determined that there is a violation what happens?
- The AHC can revoke the license.
 - The MREC can impose criminal penalties after a thorough investigation.
 - The MREC can revoke or suspend the license,
 - The AHC can invoke criminal penalties

9. A salesperson told the MREC that their broker is commingling funds. The MREC:
- will ignore it as a salesperson can't complain on their broker.
 - would automatically suspend the broker's license.
 - may investigate the complaint on their own.
 - would determine if a law violation has occurred.
10. The AHC has the authority to do which of the following?
- Investigate a complaints.
 - Determine the penalty.
 - Revoke a license.
 - conduct a hearing to determine if a violation has occurred.
11. Which is true:
- The AHC has to find the licensee guilty before the MREC can determine the penalty.
 - The MREC has to send all complaints to the AHC.
 - The MREC can revoke a license if they believe there is a legitimate complaint.
 - The AHC makes no recommendations to the MREC in regards to penalties.
12. The MREC would become involved in which of the following complaints.
- If there is a commission dispute between two offices.
 - if there is a commission dispute between a broker and their associate.
 - a licensee didn't inform the buyer of an easement on the property.
 - a seller for not having good title.
13. Which of the following can the MREC not do while investigating a licensee:
- Suspend the license during the investigation.
 - Required the licensee appear in person before the MREC.
 - Require the licensee produces all documents relevant to the investigation.
 - Require the licensee respond in writing and send a copy to the complainant.

Unit 17:

PROPERTY MANAGEMENT:

When a licensee is doing property management they are required to have a written property management agreement to lease, show, represent the property/owner, etc.

The agreement must include:

- a complete identification of the property.
- a description of how any commission will be paid.
- where the pre paid rents and security deposits will be held.
- the effective dates of the agreement.
- the terms and conditions for terminating the agreement.
- the signatures of the broker and the owner.

If the broker is to hold money of the owner they will be required to have a property management trust account. they can hold current and advance rents along with money received from the owner for expenses. It will be an account similar to a broker's operating account. The broker will pay bills from the account including the broker's fees. The broker cannot put any of their own money in the account to pay bills unless it is specifically authorized in the management agreement.

Security deposits will be held in a separate security deposit trust account. It is to be used strictly for holding security deposits. It may not be placed in the property management account and can only be placed in the account when due. (lease is signed)

All other escrow rules apply. You have 10 business days to deposit the money if you are the broker. The sales person has to give it to their broker immediately. No interest may be paid without written consent and the money can't be disbursed without consent.

Unit 18:

AGENCY & AGENCY DISCLOSURE:

Definitions:

1. Agent: A person or entity (real estate brokerage) acting pursuant to the provisions of this chapter representing a buyer, seller, landlord or tenant by **written** agency agreement.
2. Client - is a seller, landlord, buyer or tenant who has entered into a **written** brokerage agreement with a licensee.
3. customer - an actual or potential seller, landlord, buyer or tenant in a real estate transaction that a licensee is involved in but who has not entered into a written brokerage (agency) relationship with.
4. buyer/tenant agent - the entire brokerage firm represents a buyer/tenant in a transaction.
5. seller/landlord agent - brokerage firm represents a seller/tenant in a transaction.
6. subagent - a brokerage firm engaged by another brokerage firm to act as agent for the seller/client. This means both companies are representing the seller. The buyer would be unrepresented.
7. designated agent - a licensee affiliated with the firm representing a buyer or a seller client and designated by the broker to be the agent for the client to the exclusion of all other licensees. A designated agent can be more than one person but each have to be listed.
8. dual agent - a licensee/brokerage firm represents both the buyer and seller client on the same transaction. This is only allowed with written permission of both parties.
9. transaction broker - is a licensee or brokerage firm who does **not** represent either party but simply assists with the transaction. The buyer or seller in this case are customers.

AGENCY AGREEMENTS:

All agency agreements must be in writing. If there is not a written agency agreement then the license or brokerage firm is presumed to be a transaction broker. They then are neutral in the transaction and represent neither the buyer or the seller.

If a brokerage accepts an offer of sub agency from a listing company they then become a seller's agent through the listing agent or a sub agent.

AGENCY DUTIES:

An agent must exercise reasonable skill and care at all times. They must promote the interest of the client with loyalty. Putting the clients interest first including:

- a. seeking a price and terms acceptable to the client.

- b. present all offers in a time manner giving the client the costs and net they can expect.
- c. disclose all adverse material facts actually known by the agent or facts that should have been known.
- d. always advise clients to obtain expert advice which means inspections and reports from experts in the field in question. (roof, foundation, whole house, etc.)

LICENSEE DUTIES TO A CUSTOMER:

A transaction broker owes no duties to a customer **EXCEPT** they must disclose all adverse material facts they know or should have known including:

- a. environmental hazards affecting the property.
- b. physical condition of the property.
- c. material defects or inability of the seller to provide clear title.
- d. material defects in the property.
- e. license must be fair and honest with the customer.

DUAL AGENCY:

A brokerage or licensee can be a dual agent with the written consent of all parties. This means they represent both the seller and the buyer. They can't tell either party that the other party will agree to terms other than those offered. You have to be fair and impartial to both parties.

BROKERAGE DISCLOSURE FORM:

License law dictates that at the **earliest practical opportunity** a licensee has with a seller, buyer, landlord or tenant (potential customer or client) they will provide that person with a written copy of the brokerage disclosure form. The form shall also mirror the office policy. In other words if your broker doesn't have it in the office policy to offer buyer agency you would need to disclose that. If you have property listed and are showing it to prospective buyers you must disclose to them your relationship (seller agency) agreement with the seller when the buyer gives you any personal or financial information.

Unit 19:

CLOSING A REAL ESTATE OFFICE:

If a broker decides to voluntarily close a real estate office. They must notify the MREC in writing what date they will be closing. They are also required to keep all records of business conducted for 3 years and notify the MREC where the records will be stored.

They will have to notify all people they are presently doing business with, including seller's whose property they have listed, property management clients, coop brokers on existing contracts and any other person presently in a business arrangement with them the date they will be closing the office and tell them they have the right to make new agreements with other brokers.

They have to cease advertising immediately.

Unit 20:

HUD - CLOSING STATEMENT

The whole purpose of doing real estate is to lead to one final event. The closing of the transaction. This is when you get paid for your work. The final closing takes place after all the elements of the purchase/sales agreement have taken place. The buyer completes all inspections and is given assurance

that the title is clear, all liens are paid and necessary prorations are done. These are all reflected on the HUD (closing statement). The seller will want to be sure the buyer has the funds for closing and that all requirements have been taken care of. Sometimes if repairs are made they will be shown on the HUD and paid "out of closing". If they are paid prior to closing receipts will be required by the closing agent/title company to be certain they will not be a lien. POC will appear on the statement for all items prepaid.

Preparing the closing statement:

The closing involves in addition to the purchase price expenses by both parties. Some items that have already been paid by the seller have to be prorated to give them credit for the part they didn't actually use. All costs involved in getting the loan have to be paid. The seller and the buyer will have **debits** (an amount they owe) and **credits** (an amount due them) listed on the closing statement. After all debits and credits are entered on the closing statement the buyer and seller will know what their "bottom line" is. This usually shows an amount the buyer will bring to closing and the amount the seller will "net" from the closing. It is not "law" that the buyer will owe or the seller will receive money at closing. This depends on the agreement and terms made as well as loan balance. Below are a few of the debits and credits applicable to buyer/seller. These vary by state and region.

Item	credit buyer	debit buyer	credit seller	debit seller	prorated
Any assumed mortgage	x				
Pay off existing mortgage			x		
Unpaid principle balance assumed by buyer	x			x	
accrued interest on assumed mortgage	x			x	x
purchase money mortgage	x			x	
Buyer's earnest money	x				
Sales price of property		x	x		
Propane on hand		x	x		x
Utilities paid in advance		x	x		x
Prepaid general real estate taxes		x	x		

OTHER ITEMS ON THE STATEMENT INCLUDE:

Broker's commission. This is determined by the original listing agreement and purchase agreement/sales contract. If there are two cooperating brokers they will both be shown on the HUD with the amount they are being paid.

Attorney's fees for preparation of loan documents is usually charged to the buyer and the cost for preparing the deed or release documents is usually charged to the seller. Attorney's fees are also paid from closing proceeds.

Recording fees are split as well. The seller usually pays for any recording charges to clear defects and clear existing lines (this includes mortgage releases) and the buyer pays for charges that are for transfer of title such as recording the deed of conveyance and any mortgage or deed of trust to their lender.

Title expenses are paid by the seller as it is their responsibility to provide "good" title to the buyer.

Loan fees are generally paid by the buyer as a part of the cost of getting a loan to purchase. These may include an origination fee, points or an assumption fee on a loan being assumed. A seller might be charged a prepayment penalty if they are paying off the mortgage during the penalty period of the loan. This is usually the first 1 - 5 years.

Tax reserves and insurance reserves (escrow or impound accounts) are set up at closing. A borrower pays enough at closing to pay future tax and insurance premiums. The taxes will be collected for the month of closing and possibly 2 -3 more months. The seller will pay the taxes for the current year and this money will also be put in the escrow account. The insurance money collected is usually one full year plus 1 - 2 months in addition. This assures the lender that there is adequate money in the account to pay both the taxes and insurance when they become due.

Appraisal fees are considered to be part of the loan costs. If the seller has an appraisal done prior to contract stage they may pay for it but generally it is not ordered until there is a contract and it is ordered by the mortgage company making the new loan and the buyer pays for it. This is subject to what is agreed on in the contract.

Survey fees are generally paid for by the buyer. Here again it may be agreed on in the contract that the seller pays this fee.

MIP/PMI/VA Funding fee: The MIP (mortgage insurance premium) is the charge FHA charges a borrower to make the loan. PMI is private mortgage insurance and the VA charges a funding fee. These are all forms of mortgage insurance to give the lender assurance that the loan will be paid.

All closing statements include proration's. Some of the items to be prorated are interest, taxes, fuel, utility bills, etc. Remember interest is always paid in arrears (after it is earned). At closing a seller owes interest for the days of the month interest has been earned but not paid. A buyer will pay interest in advance for the remainder of the month and possibly for the next month if their first payment is more than a month later. Actual days are used by the closing or title company. For practice purposes 12 - 30 days months are used for a total of 360 days. Also the state tests use the 360 calendar years in all calculations.

Now we'll do a transaction using the following information.

Jim and Mary Barnes listed their home with XYZ realty for \$234,900. In the listing agreement the seller's agree to pay the XYZ realty a commission of 6% allowing them to co-broke with another selling company.

Nation's best brought a contract to XYZ submitted by Joseph Huntington for \$230,000. He plans to make a down payment of \$46,000 and borrow the remainder of \$184,000. For earnest money he offered the \$46,000. Since he is paying more than 20% down there will not be any PMI (private mortgage insurance) required. The Barnes accept the contract with a closing date of June 15.

The Barnes owe \$115,400 on their present loan. They pay \$825 per month on a 30 year term at 7% interest.

The sellers submit evidence of title to the buyer with a binder at a cost to them of \$30. There will be additional costs at closing for the remainder of the title insurance of \$540. \$395 of this is for lender's coverage and \$145 is for homeowner's coverage,. Recording fees of \$20 are to be paid for recording two instruments to clear defects in the seller's title. The state transfer tax is \$115. The attorneys fees for preparing the deed and legal representation in clearing the title is \$600.

The buyer will pay \$500 attorney's fees for legal representation. He will also pay \$20 to record the deed to the property.

Real estate taxes are paid in arrears. The taxes for this year are \$3,450 and have not been paid, For the purpose of this training exercise we will use 30 days per month with 12 months for a total of 360 days.

Here are the proration's and charges.

Closing date June 15

Commission: 6% (.06) x 230,000 sale price = \$13,800.

Seller's mortgage interest: 7% (.07) x 115,400 = \$8,078 divided by 360 days for a per diem = \$22.44 x 15 days of June= \$336.60 plus \$115,400 = a payoff of \$115,736.60

Real Estate Taxes: \$3,450 divided by 12 = \$287.50 per month or by 360 = \$9.58 per day x 15 days = \$143.70 Plus the seller owes for January through May = 1,437.50 plus the 15 days of June \$143.70 = a total of \$1,581.20 the seller owes the buyer.

The seller's loan pay off is \$115,736.60. They have a mortgage release fee of \$25.

Pest inspection paid by the seller is \$100 and the survey cost is \$200.

The Buyer's new loan is being made by Thrift in the amount of \$184,000 at 7.98% interest. The buyer will pay a credit report fee of \$120. This fee was collected when the application was taken so it will show on the closing statement as POC (paid out of closing). The buyer will pay 15 days of interest through the end of June. $\$184,000 \times 7.98\%$ divided by 360 = \$40.79 per diem for 15 days = 611.85. The buyer's first full payment will be due on August 1. To set up the escrow account (reserve account) the buyer will deposit \$2,012.50 in taxes through June. He'll also deposit 2months of hazard or home owner's insurance in the reserve account and pay for the first full year of insurance as well. The fee for recording the mortgage is \$50. The origination fee is \$2,300 and discount points come to \$3,680.

You will notice the closing statement is divided into sections. Section J line 101 through 120 gives the gross amount due from the borrower, any adjustments and a total gross amount due. Then line 201 through 220 gives the information on the amounts paid for or on behalf of the borrower. You'll notice this includes the new loan and earnest money. Line 301 tells the gross amount due from the borrower subtract line 220/302 the amount paid from and line 303 amount and you'll have how much the buyer needs to bring to closing. You'll notice on line 103 it is for settlement charges to the borrower. This is taken from line 1400 on the back side of the statement.

The other side of this page is for the seller. 401 through 420 gives the total amount due to the seller. Line 501 through 520 give the total amount to be subtracted from the amount due on line 420. again the settlement charges to the seller are listed (line 1400) from the back side of the statement. Subtract line 520/602 from 601 and it gives you the amount the seller will "walk away" with after closing.

For the back side of the closing statement you will find all the figures discussed previously in their appropriate space. Make sure and check through them so you'll understand what is a debit and what is a credit and to whom.

All of the figures are on the statement following. The 2 pages will not fit on 2 pages in this booklet so you will see where there is a break between page 1 and page 2. When you go to an actual closing there are only 2 pages.

A. U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT SETTLEMENT STATEMENT			
B. TYPE OF LOAN		6. File Number	7. Loan Number

	1. o FHA	2. o FmHA		
3. o CONV. UNINS.	4. o VA	5. o CONV. INS.	8. Mortgage Insurance Case Number	

C. NOTE: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. NAME AND ADDRESS OF BORROWER:	E. NAME AND ADDRESS OF SELLER:	F. NAME AND ADDRESS OF LENDER:
G. PROPERTY LOCATION:	H. SETTLEMENT AGENT: NAME, AND ADDRESS	
	PLACE OF SETTLEMENT:	I. SETTLEMENT DATE:

J. SUMMARY OF BORROWER'S TRANSACTION		K. SUMMARY OF SELLER'S TRANSACTION	
100. GROSS AMOUNT DUE FROM BORROWER:		400. GROSS AMOUNT DUE TO SELLER:	
101. Contract sales price	230,000.00	401. Contract sales price	230,000.00
102. Personal property		402. Personal property	
103. Settlement charges to borrower(line 1400)	9,959.13	403.	
104.		404.	
105.		405.	
<i>Adjustments for items paid by seller in advance</i>		<i>Adjustments for items paid by seller in advance</i>	
106. City/town taxes to		406. City/town taxes to	
107. County taxes to		407. County taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. GROSS AMOUNT DUE FROM BORROWER	239,959.35	420. GROSS AMOUNT DUE TO SELLER	230,000.00

200. AMOUNTS PAID BY OR IN BEHALF OF BORROWER:		500. REDUCTIONS IN AMOUNT DUE TO SELLER:	
201. Deposit of earnest money	46,000.00	501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)	184,000.00	502. Settlement charges to seller (line 1400)	15,565.00
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
<i>Adjustments for items unpaid by seller</i>		<i>Adjustments for items unpaid by seller</i>	
210. City/town taxes to		510. City/town taxes to	

211. County taxes to	1.581.20	511. County taxes to	1.581.20
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. TOTAL PAID BY/FOR BORROWER	231,581.20	520. TOTAL REDUCTION AMOUNT DUE SELLER	
300. CASH AT SETTLEMENT FROM/TO BORROWER		600. CASH AT SETTLEMENT TO/FROM SELLER	
301. Gross amount due from borrower(line 120)	239,959.35	601. Gross amount due to seller (line 420)	230,000.00
302. Less amounts paid by/for borrower(line 220)	231,581.20	602. Less reductions in amount due seller (line 520)	132,882.80
303. CASH (_x FROM) (_ TO) BORROWER	8378.15	603. CASH (o TO) (o FROM) SELLER	97,117.20

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L. SETTLEMENT CHARGES		
700. TOTAL SALES/BROKER'S COMMISSION based on price \$230,000.00 @ 6%= 13,800.00	PAID FROM BORROWER'S FUNDS AT SETTLEMENT	PAID FROM SELLER'S FUNDS AT SETTLEMENT
<i>Division of Commission (line 700) as follows:</i>		
701. \$ to		13,800.00
702. \$ to		
703. Commission paid at Settlement		
704.		
800. ITEMS PAYABLE IN CONNECTION WITH LOAN		
801. Loan Origination Fee %	2300.00	
802. Loan Discount %	3680.00	
803. Appraisal Fee to \$500	POC	
804. Credit Report to \$120.00	POC	
805. Lender's Inspection Fee		
806. Mortgage Insurance Application Fee to		
807. Assumption Fee		
808.		
809.		
810.		
811.		
900. ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE		
901. Interest from 6/16/ to 6/30 @\$40.79 /day	611.85	
902. Mortgage Insurance Premium for months to		

903. Hazard Insurance Premium for years to	690.00	
904. years to		
905.		
1000. RESERVES DEPOSITED WITH LENDER		
1001. Hazard Insurance months 2 @ \$ 57.50 per month	115.00	
1002. Mortgage insurance months @ \$ per month		
1003. City property taxes months @ \$ per month		
1004. County property taxes months 7 @ \$ 287.50 per month	2,012.50	
1005. Annual assessments months @ \$ per month		
1006. months @ \$ per month		
1007. months @ \$ per month		
1008. Aggregate Adjustment months @ \$ per month		
1100. TITLE CHARGES		
1101. Settlement or closing fee to		
1102. Abstract or title search to		
1103. Title examination to		
1104. Title insurance binder to		20.00
1105. Document preparation to		
1106. Notary fees to		
1107. Attorney's fees to	500.00	600.00
<i>(includes above items numbers;)</i>		
1108. Title Insurance to		540.00
<i>(includes above items numbers;)</i>		
1109. Lender's coverage \$		
1110. Owner's coverage \$		
1111.		
1112.		
1113.		
1200. GOVERNMENT RECORDING AND TRANSFER CHARGES		
1201. Recording fees: Deed \$25.00; Mortgage \$25.00; Releases \$25.00	50.00	25.00
1202. City/county tax/stamps: Deed \$; Mortgage \$		
1203. State tax/stamps: Deed \$; Mortgage \$		
1204. record 2 documents to clear title		50.00
1205.		
1300. ADDITIONAL SETTLEMENT CHARGES		
1301. Survey to		200.00
1302. Pest inspection to		100.00
1303.		
1304.		
1305.		
1400. TOTAL SETTLEMENT CHARGES <i>(enter on lines 103, Section J and 502, Section K)</i>	\$9,959.35	\$15,335.00

UNIT 20 quiz:

1. A buyer is buying a property for \$91,500. They are putting 10% down payment and \$5,000 for earnest money. How much will their loan amount be?

- a. \$69,890
- b. \$91,500
- c. \$82,710
- d. \$84,350

2. Using the following information figure the buyer's **credits:**

Buyer Debits	\$84,105
New loan	\$62,000
Earnest money	\$ 1,000
Cash to close	\$ 8,450

- a. 75,655
- b. 62,000
- c. 63,000
- d. 84,655

3. A Property was sold and closed on November 10th. The seller had already paid for the annual insurance premium of \$1,850 on August 10th. The buyer assumed the insurance policy with the seller paying for the day of closing. Figuring on a 360 day year how much would the buyer owe the seller for the remaining insurance?

- a. \$1,365.10
- b. \$2,347.00
- c. \$1,462.25
- d. \$1,387.50

4. A buyer made an offer on a property. He put up earnest money equal to 5% of the offered sales price. The offer was accepted and the loan amount was \$94,000. His loan to value ratio was 80%. How much was the earnest money amount?

- a. \$4,000
- b. \$5,875
- c. \$11,750
- d. \$4,700

5. A broker received a 7% commission. The seller also paid \$1,850 in closing costs. The seller netted \$100,000. How much did the property sell for?
- a. 109,516.13
 - b. 109,376.88
 - c. 108,850.00
 - d. 107,950.25
6. A buyer made an offer to purchase a property and it was accepted by the seller. The buyer gave the broker a check for 10% of the purchase price. The buyer got a 90% loan for \$87,300. The broker agreed to pay the inspection fee of \$150 for the seller and the pest treatment for \$300 and hold it from the earnest money. The broker is to receive 6% commission. How much does the broker owe the seller from the earnest money check at closing?
- a. \$1,873.
 - b. \$2,450
 - c. \$3,430
 - d. \$5,820
7. A buyer is buying a property for \$91,900. The buyer deposited \$3,000 as earnest money. The buyer paid \$100 for a termite inspection, \$350 for the appraisal, one point for origination fee. The seller paid 7% commission and \$1,250 in closing costs. The buyer got a 90% loan and taxes for the year, were prorated to the day of closing, July 15th. The total taxes were \$1,320. What were the buyer's credits?
- a. \$82,710
 - b. \$83,425
 - c. \$85,710
 - d. \$86,425
8. A seller and buyer have agreed to share equally in the total costs to close the property. They will each pay \$490 to cover taxes, insurance, recording fees and attorney fees. How would you put this on the closing statement?
- a. Debit seller \$245.
 - b. Credit seller \$245
 - c. Debit seller \$490
 - d. credit seller \$490

9. The following amounts were reflected on a HUD.

Seller's credits - \$115,900

Seller's debits - \$36,825

Buyer's credits - \$95,000

Buyer's debits - \$115,900

How much would the seller net at closing?

- a. \$79,075
- b. \$115,900
- c. \$36,825
- d. \$95,000.

10: Using the figures from above how much will the buyer bring to closing?

- a. \$95,000
- b. \$36,825.
- c. \$20,900
- d. none

11. The principal amount of a purchaser's new mortgage loan is shown on the HUD as a:

- a. credit to the seller
- b. debit to the seller
- c. credit to the buyer
- d. debit to the buyer

12. Earnest money put up on a contract is a:

- a. credit to the seller
- b. credit to the buyer
- c. balancing factor
- d. debit to the buyer

Answer key:

Unit 1:

- 1 a
- 2 d
- 3` a
- 4 c

Unit 2:

- 1 c
- 2 a
- 3 d
- 4 b

Unit 3:

- 1 d
- 2 c
- 3 b
- 4 c

Unit 4:

- a d
- 2 b
- 3 d
- 4 c

Unit 5:

- 1 d
- 2 d
- 3 b

Unit 6:

- 1 d

Unit 7:

- 1 c

Unit 8:

- 1 b

2 b

3 d

4 d

5 d

6 a

7 a

Unit 9:

1 c

2 c

3 a

Unit 10:

1 b

2 c

3 d

4 d

5 b

6 d

Unit 11:

1 a

2 c

3 d

Unit 12:

1 b

2 b

3 c

4 d

5 a

6 d

7 c

Unit 13:

1 d

2 a

3 c

4 b

Unit 14:

1 a

2 d

3 c

4 c

Unit 15:

1 d

2 b

Unit 16:

1 c

2 a

3 d

4 b

5 c

6 a

7 b

8 c

9 c

10 d

11 a

12 c

13 a

Unit 20:

1 c

2 a

3 d

4 b

5 a

6 c

7 d

8 a

9 a

10 c

11 c

12 b

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