NC Real Estate Broker National

North Carolina Real Estate Commission NCREC-Broker-N

Version Demo

Total Demo Questions: 14

Total Premium Questions: 145

Buy Premium PDF

Topic Break Down

Topic	No. of Questions
Topic 1, Property Ownership	12
Topic 2, Land Use Controls and Regulations	9
Topic 3, Valuation and Market Analysis	16
Topic 4, Financing	8
Topic 5, General Principles of Agency	13
Topic 6, Property Disclosures	11
Topic 7, Contracts	19
Topic 8, Leasing and Property Management	7
Topic 9, Transfer of Title	12
Topic 10, Practice of Real Estate	27
Topic 11, Real Estate Calculations	11
Total	145

QUESTION NO: 1

A buyer enters into a contract to purchase a parcel of land. The contract does not prohibit assignment. Before closing, the buyer assigns the buyer's contractual rights to an investor. The seller has not agreed to release the original buyer. Which statement is TRUE?

A. The assignment automatically releases the original buyer from all contractual liability.

B. The assignment is invalid because land-purchase contracts can never be assigned.

C. The original buyer remains liable unless the seller agrees to a novation.

D. The seller must convey the property to both the original buyer and the investor.

ANSWER: C

Explanation:

The buyer may generally assign contractual rights when the contract does not prohibit assignment, but assignment does not by itself discharge the original buyer's contractual obligations. The investor may acquire the right to receive the conveyance and may undertake the buyer's performance, yet the seller may still hold the original buyer liable if the investor fails to perform. A novation, agreed to by the seller, would be required to substitute the investor for the original buyer and release the buyer from liability.

QUESTION NO: 2

If a buyer defaults on a purchase agreement just prior to settlement, what clause in the contract would likely allow the seller to keep the earnest money deposit?

A. Actual damages

B. Compensatory damages

C. Liquidated damages

D. Punitive damages

ANSWER: C

Explanation:

Liquidated damages is correct because it describes an amount the parties agree in advance will compensate the nonbreaching party if the contract is breached. In a North Carolina residential transaction using the standard Offer to Purchase and Contract, earnest money is held in trust while the contract remains pending. If the buyer materially breaches the contract after the applicable termination rights have expired, the seller may generally terminate the contract and retain the earnest money deposit as liquidated damages, subject to the contract's specific terms and any required dispute-resolution process. This remedy provides a defined contractual measure of recovery rather than requiring the seller to first prove the precise financial loss caused by the buyer's failure to close. The timing stated in the question—just before settlement—indicates that the buyer has failed to perform the obligation to complete the purchase when due, making the contract's liquidated-damages provision the relevant basis for the seller's claim to the deposit. Licensees should review the currently approved form and avoid independently deciding entitlement to disputed trust funds. See the North Carolina Real Estate Commission's Offer to Purchase and Contract and its consumer contract forms page.

QUESTION NO: 3

A North Carolina broker deposits a buyer's earnest money check into their firm's general fund so that they can pay the rent on the brokerage office. This is an example of:

A. capitalization.

B. commingling.

C. negligence.

D. puffing.

ANSWER: B

Explanation:

commingling. is correct because earnest money received in connection with a real estate transaction is trust money, not money belonging to the brokerage firm. A North Carolina broker must safeguard such funds in a trust or escrow account until the funds are properly disbursed under the parties' agreement or applicable law. Placing a buyer's earnest money check in the firm's general operating fund combines client money with the firm's business money, which is commingling. The fact that the money is being used to pay office rent makes clear that the funds are being treated as operating capital rather than held for the transaction. Proper trust-account handling protects the buyer and seller, preserves a complete accounting of funds held for others, and ensures that money remains available when it must be disbursed. North Carolina's trust-account rule requires brokers to deposit trust money into a trust or escrow account and maintain records supporting the handling of those funds. See North Carolina Administrative Code Rule 58A .0116, available through the North Carolina Office of Administrative Hearings, and the Commission's Trust Account Guidelines.

QUESTION NO: 4

Why does the North Carolina Conner Act require deeds to be recorded?

A. To provide actual notice to all parties involved

B. To provide constructive notice of the transfer

C. To ensure the validity of the deed

D. To comply with the statute of frauds

ANSWER: B

Explanation:

To provide constructive notice of the transfer is correct because North Carolina follows a pure race recording system under the Conner Act. Recording a deed in the office of the register of deeds for the county where the property is located places the conveyance in the public land records. The recorded instrument gives constructive notice: subsequent purchasers and creditors are legally treated as having notice of the recorded transfer, whether or not they actually examined the records. This public-record system establishes priority between competing claims to the same real property. Under North Carolina General Statutes § 47-18, an unrecorded deed is generally ineffective against a purchaser for valuable consideration from the same grantor or against certain creditors until the deed is registered. Recording therefore protects the grantee's interest against later competing interests and lets persons investigating title rely on the county's public records. A deed may be valid between the grantor and grantee even before recording, but recording is what supplies the statutory protection against qualifying third parties. See N.C. Gen. Stat. § 47-18 and the Commission's North Carolina Real Estate Manual.

QUESTION NO: 5

A salaried employee of a North Carolina brokerage firm that practices property management must have a real estate license if they perform which task?

A. Accepting applications for a lease

B. Completing a preprinted lease contract

C. Negotiating the amount of a security deposit

D. Showing apartment units to prospective tenants

ANSWER: C

Explanation:

Negotiating the amount of a security deposit requires a real estate license because it is a substantive negotiation of a lease term on behalf of the property owner. A security deposit is a material financial provision of a residential tenancy, and determining or bargaining over its amount calls for judgment and authority in dealings with a prospective tenant. In North Carolina, acting for another for compensation in negotiating the leasing or renting of real estate falls within the statutory definition of real estate brokerage. Therefore, a brokerage firm's salaried property-management employee may not undertake that negotiation unless the employee is appropriately licensed and acting under the supervision required by North Carolina law.

The distinction is important in property management: a salaried unlicensed employee may assist with limited routine or ministerial activities allowed by Commission guidance, but the employee cannot make decisions or negotiate terms that bind, alter, or materially affect the owner's rental agreement. The security-deposit amount directly affects the parties' financial obligations and is part of the lease transaction itself, so negotiating it is licensed brokerage activity. North Carolina's statutory definition of a real estate broker includes negotiating leases and rentals for others; see N.C. Gen. Stat. § 93A-2. Additional Commission licensing-law guidance is available in the North Carolina Real Estate License Law and Commission Rules.

QUESTION NO: 6

Which statement about acknowledging a deed is TRUE?

A. Acknowledging a deed requires the signature of the listing agent.

B. A deed must be acknowledged to be valid.

C. A deed must be acknowledged to be recorded.

D. A deed must be acknowledged or the transaction cannot close.

ANSWER: C

Explanation:

A deed must be acknowledged to be recorded. In North Carolina, a deed generally must be properly acknowledged by the grantor before an authorized officer, such as a notary public, before the register of deeds may record it. An acknowledgment is the grantor's formal declaration to the authorized officer that the grantor executed the instrument voluntarily for the purposes stated in it. This authentication permits the document to enter the public land-records system and provides the notice function associated with recording.

North Carolina General Statutes § 47-14 provides that a deed or other instrument requiring registration may not be registered unless its execution is acknowledged by the grantor or proved as authorized by law. Recording is important because North Carolina's recording statutes protect purchasers and creditors who rely on the public records. A properly acknowledged and recorded deed therefore establishes a clear public record of the conveyance and helps protect the grantee's interest against later competing claims. See N.C. Gen. Stat. § 47-14 and N.C. Gen. Stat. § 47-17.

QUESTION NO: 7

A tenant leases space in a shopping center for a bakery and installs display cases that are bolted to the floor and connected to electrical outlets. The lease is silent regarding the display cases. Before the lease expires, the tenant removes the cases and repairs the floor and electrical connections without causing material damage to the premises. Which statement is TRUE?

A. The display cases are trade fixtures that the tenant may remove before the lease expires.

B. The display cases became the landlord's property when they were attached to the floor.

C. The display cases may be removed only if the landlord pays the tenant their depreciated value.

D. The display cases may be removed only after the tenant has vacated the premises.

ANSWER: A

Explanation:

The display cases are trade fixtures, which a commercial tenant generally may remove before the end of the tenancy if removal does not cause substantial damage to the premises. Although the cases are attached to the building, they were installed to support the tenant's bakery business rather than to permanently improve the landlord's real estate. The tenant must remove them timely and repair damage caused by removal. A fixture installed for the permanent benefit of the property would ordinarily remain with the real estate, but a trade fixture is treated differently.

QUESTION NO: 8

A loan is set up so that the borrower's loan payments are for the same amount each month. A portion of each payment goes to interest, and a portion goes to principal, and the loan balance will be zero at the end of the loan term. Which type of loan is this?

A. Fully amortizing

B. Negatively amortizing

C. Partially amortizing

D. Straight amortizing

ANSWER: A

Explanation:

Fully amortizing is correct because it describes a loan whose scheduled periodic payments are sufficient to repay both the interest accruing on the debt and the entire original principal balance by the stated maturity date. With the usual fixed-rate fully amortizing mortgage, the borrower pays the same amount each month. Early payments apply proportionally more to accrued interest because the unpaid principal balance is higher; as principal is reduced over time, less interest accrues and a greater share of each level payment is applied to principal. This payment structure follows an amortization schedule and results in a zero loan balance when the final scheduled payment is made, assuming the borrower has made all payments as required. Fully amortizing mortgage loans are a standard financing structure in residential real estate and are distinct from arrangements that leave a remaining balance due at maturity. The Consumer Financial Protection Bureau explains that an amortization schedule shows how each mortgage payment is allocated between principal and interest and how the balance declines over the loan term. See the CFPB explanation of amortization and the North Carolina Real Estate Commission for North Carolina real estate licensing resources.

QUESTION NO: 9

Which of the following actions by a listing broker is an example of willful misrepresentation?

A. Accidentally providing incorrect square footage of a property

B. Deliberately hiding structural damage from a buyer

C. Forgetting to disclose a minor repair needed in the property

D. Misunderstanding the zoning ordinance for a property

ANSWER: B

Explanation:

"Deliberately hiding structural damage from a buyer" is willful misrepresentation because it describes intentional concealment of information that is material to a purchaser's decision. Structural damage can substantially affect a property's value, safety, repair costs, financing, insurability, and desirability. A listing broker who knows about such damage and intentionally withholds it is not simply making an error; the broker is purposefully creating or maintaining a false impression about the property's condition. North Carolina's Real Estate License Law authorizes disciplinary action when a licensee makes a willful or negligent misrepresentation or commits fraud or dishonest dealing in a real estate transaction. The Commission's consumer guidance also emphasizes that brokers must disclose material facts they know or reasonably should know. Intentional concealment of a known structural defect therefore fits the defining element of willful misrepresentation: knowledge of a material fact coupled with a deliberate decision not to reveal it. See N.C. Gen. Stat. § 93A-6 and the North Carolina Real Estate Commission's consumer and brokerage forms resources.

QUESTION NO: 10

What is the formula for calculating capital gain when a principal residence is sold?

A. Amount Realized - Adjusted Basis

B. Amount Realized + Adjusted Basis

C. Adjusted Basis / Amount Realized

D. Adjusted Basis - Amount Realized

ANSWER: A

Explanation:

Amount Realized - Adjusted Basis is the formula used to determine gain or loss from the sale of a principal residence. The amount realized is generally the sale price less selling expenses, such as commissions, advertising costs, legal fees, and other expenses directly connected with the sale. Adjusted basis starts with the taxpayer's original cost or other starting basis in the home and is then adjusted for qualifying capital improvements and other required basis adjustments. For example, additions, a new roof, or major remodeling can increase basis, while depreciation claimed for business or rental use can reduce it. Subtracting adjusted basis from the amount realized produces the realized gain before considering whether the homeowner qualifies to exclude some or all of that gain under the principal-residence rules. Under federal tax law, eligible taxpayers may generally exclude up to $250,000 of gain, or up to $500,000 for certain married taxpayers filing jointly, if the ownership, use, and other requirements are met. The Internal Revenue Service describes this calculation and the residence-sale exclusion in IRS Publication 523, Selling Your Home. Basis and adjustments to basis are further addressed in IRS Publication 551, Basis of Assets.

QUESTION NO: 11

A North Carolina broker must maintain copies of all transaction files for at least _____ after the conclusion of a transaction?

A. 1 year

B. 2 years

C. 3 years

D. 4 years

ANSWER: C

Explanation:

3 years is correct because North Carolina Real Estate Commission Rule 21 NCAC 58A .0108 requires brokers to retain records of all real estate transactions handled by the broker for three years after the conclusion of the transaction. The retention period applies whether the matter concludes through a completed closing or through termination before closing. Transaction records generally include the written instruments and documents connected with the brokerage service, such as offers, contracts, agency agreements, disclosures, settlement-related materials, and pertinent correspondence or other documentation needed to demonstrate how the transaction was handled. Maintaining a complete file for the required period supports the broker's ability to respond to a Commission inquiry, verify compliance with agency and disclosure requirements, and document the services provided to the parties. The obligation is a broker recordkeeping duty under the Commission's rules, so the three-year period is measured from the transaction's conclusion rather than from the date a document was created. The governing text is available in the Commission rule, 21 NCAC 58A .0108—Retention of Records. Additional Commission materials and rules are available through the North Carolina Real Estate Commission.

QUESTION NO: 12

Under the provisions of the federal Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA), a lender must provide a borrower with the Closing Disclosure at least _________ prior to loan consummation.

A. 1 business day

B. 3 business days

C. 3 calendar days

D. 7 calendar days

ANSWER: B

Explanation:

3 business days is correct because the integrated disclosure requirements require the creditor to ensure that the consumer receives the Closing Disclosure no later than three business days before consummation. "Consummation" is the point at which the consumer becomes contractually obligated on the credit transaction under applicable state law; it is not necessarily the same event as settlement or the date documents are signed in every transaction. This advance period gives the borrower time to review the final loan terms, projected payments, cash needed to close, closing costs, and other material disclosures before becoming legally obligated.

For this specific waiting period, the applicable business-day definition generally counts all calendar days except Sundays and federal legal public holidays. The creditor may deliver the disclosure in person, or it may use a method such as mail or electronic delivery that is subject to receipt and timing rules. If a change requires a new three-business-day waiting period, consummation must be delayed accordingly. The controlling regulatory requirement appears in 12 C.F.R. § 1026.19. The Consumer Financial Protection Bureau also summarizes the timing requirement in its closing guidance.

QUESTION NO: 13

If a seller whose property is currently listed with another company initiates a conversation with a broker about the possibility of the broker becoming their new listing agent, the broker:

A. may discuss the terms of a possible listing agreement that would begin after the current listing ends.

B. may not discuss the terms of any possible future listing agreement.

C. may suggest that the seller terminate the current listing agreement early.

D. must advise the seller to contact an attorney.

ANSWER: A

Explanation:

"may discuss the terms of a possible listing agreement that would begin after the current listing ends" is correct because the seller—not the broker—initiated the discussion. In that circumstance, the broker may ethically discuss the terms on which the broker and seller could form a future listing relationship. Any resulting agreement must respect the existing exclusive listing contract and be structured to take effect only when that current agreement expires. The broker's conduct must remain limited to a prospective relationship and must not be used to induce the seller to breach, cancel, or otherwise evade contractual obligations to the current listing firm. This approach protects the seller's ability to consider future representation while preserving the enforceability of the existing listing agreement. The North Carolina Real Estate Commission's rules prohibit a broker from inducing a party to break an existing real-estate contract for the purpose of replacing it with a new agreement. See Commission Rule 58A .0104 in the North Carolina Real Estate Commission Rules. This principle is also reflected in the REALTOR® Code of Ethics, which permits discussion of a future agreement when the client of another REALTOR® initiates the contact, provided the future agreement becomes effective after the existing exclusive listing expires. See NAR Code of Ethics, Standard of Practice 16-6.

QUESTION NO: 14

Which is the correct formula for finding the value of a property using a capitalization rate?

A. Net Operating Income × Rate = Value

B. Net Operating Income / Rate = Value

C. Potential Gross Income / Rate = Value

D. Rate / Net Operating Income = Value

ANSWER: B

Explanation:

"Net Operating Income / Rate = Value" is the correct direct-capitalization formula: Value = NOI ÷ capitalization rate. In income-property valuation, net operating income is the property's income remaining after deducting ordinary operating expenses from effective gross income, before debt service, income taxes, and depreciation. The capitalization rate is the market-derived relationship between one year's stabilized NOI and the property's value. Dividing the annual NOI by that rate converts the income stream into an indicated present value. For example, if a property produces $80,000 of annual NOI and an appropriate market capitalization rate is 8% (0.08), its indicated value is $1,000,000: $80,000 ÷ 0.08. The rate must be expressed as a decimal when performing the calculation. This is known as direct capitalization and is a core application of the income approach, particularly for income-producing real estate. The Appraisal Institute defines a capitalization rate as the ratio between a property's net operating income and its value, which supports rearranging that relationship to solve for value. See the Appraisal Institute's overview of real estate appraisal and its professional valuation resources.