GROUP STUDY STUDENT MANUAL

REAL ESTATE PRINCIPLES 3

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Class Presentation: Chapter 37: Covenants, Conditions, and Restrictions (CC&Rs)

Slide 1: Learning Objectives

- Covenants, Conditions, and Restrictions (CC&Rs): Understand the rules governing subdivisions and HOAs.
- Easements: Learn creation, use, and termination of easements, including prescriptive rights.
- Boundary Disputes: Resolve property line conflicts through agreements or legal action.
- Encroachments: Identify and address unauthorized use of property, including legal remedies.
- Deeds: Differentiate between grant deeds and quitclaim deeds and their legal implications.
- Title Insurance: Protect against title defects and ensure marketable ownership transfer.
- Homestead Protections: Safeguard equity in primary residences from creditors.
- FHA Loans: Leverage federal programs for affordable homeownership and energy efficiency upgrades.
- Carryback Financing: Explore seller financing options as alternatives to traditional loans.
- Lis Pendens: Understand the impact of legal disputes on property transactions.

Slide 2: Key Terms

- Affirmative Covenant:
    - A type of promise or agreement in a deed that requires a property owner to perform certain actions, such as maintaining a property, contributing to common area maintenance, or adhering to specific building codes.
- Covenants, Conditions, and Restrictions (CC&Rs):
    - Rules and guidelines established by a developer or homeowners' association (HOA) that govern the use and maintenance of property within a subdivision or

planned community. These covenants are legally binding on all property owners within the community.

- Negative Covenant:
    - A restriction in a deed that prohibits certain actions, such as building a structure higher than a certain height, restricting specific uses of the property, or preventing modifications without approval from an HOA.

Slide 3: What Are CC&Rs?

- Definition:
    - CC&Rs are the rules imposed by a developer or a homeowners' association (HOA) on a subdivision or community to maintain property values and aesthetics. They dictate what property owners can and cannot do with their properties.
- Purpose:
    - These covenants are designed to ensure uniformity and order within the community. They can cover a wide range of topics, including landscaping, building modifications, and use of shared amenities.

Slide 4: Types of Covenants

- Affirmative Covenant:
    - Requires the property owner to take specific actions, such as maintaining a fence or contributing to HOA fees for the upkeep of shared community spaces.
- Negative Covenant:
    - Restricts certain activities or uses of the property, such as prohibiting commercial activities in residential areas, limiting the number of vehicles on the property, or preventing construction that obstructs neighbors' views.

Slide 5: Enforcement of CC&Rs

- Homeowners' Association (HOA):
    - Typically, the HOA is responsible for enforcing CC&Rs. They can impose fines or take legal action against property owners who violate the established covenants.
- Legal Recourse:

  - If a property owner violates a restrictive covenant, the HOA or other property owners can file a lawsuit to enforce the restrictions or seek damages for non-compliance.
- Amendments to CC&Rs:
  - In some cases, CC&Rs can be amended by the HOA or by a majority vote of the homeowners in the community, but this process often requires strict adherence to legal procedures.

Student Exercise: Chapter 37: Student Exercise

Slide 1: Learning Objectives

Covenants, Conditions, and Restrictions (CC&Rs)

1. Explain the purpose of CC&Rs in a homeowners' association.

Answer:____

2. Provide an example of a rule commonly found in CC&Rs. How does it impact property owners?

Answer:____

3. What legal recourse does a homeowner have if they believe a CC&R is being enforced unfairly?

Answer:____

Easements

4. List the ways an easement can be created.

Answer: ____

5. What is a prescriptive easement? Describe the conditions required for one to be established.

Answer: ____

6. How can an easement be terminated? Provide at least two methods.

Answer: ____

Boundary Disputes

7. What is the first step property owners should take to resolve a boundary dispute?

Answer: ____

8. Define the term "quiet title action" and explain its role in resolving boundary disputes.

Answer: ____

Encroachments

9. How is an encroachment different from an easement?

Answer: ____

10. What legal remedies are available to a property owner facing an encroachment issue?

Answer: ____

Deeds

11. Differentiate between a grant deed and a quitclaim deed.

Answer: ____

12. In what scenario might a quitclaim deed be more appropriate than a grant deed?

Answer: ____

Title Insurance

13. What is the primary purpose of title insurance?

Answer: ____

14. Identify and describe one common title defect that title insurance can protect against.

Answer: ____

15. How does title insurance ensure the transfer of marketable ownership?

Answer: ____

Homestead Protections

16. What is the purpose of a homestead exemption?

Answer: ____

17. Explain how homestead protections safeguard equity in a primary residence.

Answer: ____

FHA Loans

18. What are two benefits of FHA loans for first-time homebuyers?

Answer: ____

19. Describe how FHA loans support energy efficiency upgrades in a home.

Answer: ____

Carryback Financing

20. What is carryback financing, and how does it differ from traditional financing?

Answer: ____

21. Identify a situation where carryback financing might be advantageous for both buyer and seller.

Answer: ____

Lis Pendens

22. Define the term "lis pendens" and explain its effect on property transactions.

Answer: ____

23. What steps can a buyer take to protect themselves when purchasing a property with a recorded lis pendens?

Answer: ____

Slide 2: Key Terms

Match the key terms with their definitions:

1. ______ Affirmative Covenant
2. ______ Negative Covenant
3. ______ CC&Rs

Definitions:

(A) Rules restricting certain actions or uses of property, such as height limits on buildings.

(B) Legally binding rules set by developers or HOAs to maintain community standards.

(C) A promise to perform specific actions, such as maintaining landscaping or contributing to community upkeep.

Slide 3: Enforcement of CC&Rs

True or False: _______________

1. Homeowners' Associations (HOAs) are responsible for enforcing CC&Rs and may impose fines for violations.

Answer Key: Chapter 37

Slide 1: Learning Objectives

Covenants, Conditions, and Restrictions (CC&Rs)

1. Explain the purpose of CC&Rs in a homeowners' association.
   Answer: To establish rules and regulations governing the use and appearance of properties within a subdivision or HOA to maintain property values and community standards.
2. Provide an example of a rule commonly found in CC&Rs. How does it impact property owners?
   Answer: Examples include restrictions on exterior paint colors or prohibitions on parking RVs in driveways. These rules ensure uniformity and preserve aesthetic appeal.
3. What legal recourse does a homeowner have if they believe a CC&R is being enforced unfairly?
   Answer: Homeowners can appeal to the HOA board, seek mediation, or file a lawsuit to challenge the enforcement in court.

Easements

4. List the ways an easement can be created.
   Answer: Easements can be created by express agreement, implication, necessity, or prescription.
5. What is a prescriptive easement? Describe the conditions required for one to be established.
   Answer: A prescriptive easement is obtained through continuous, open, notorious, and adverse use of someone else's property for a statutory period, typically 5-20 years depending on jurisdiction.
6. How can an easement be terminated? Provide at least two methods.
   Answer: Easements can be terminated by agreement between the parties, abandonment, merger (if one party acquires both properties), or expiration of the agreed duration.

Boundary Disputes

7. What is the first step property owners should take to resolve a boundary dispute?
   Answer: Review property deeds, maps, and surveys to clarify legal boundaries.
8. Define the term "quiet title action" and explain its role in resolving boundary disputes.
   Answer: A quiet title action is a lawsuit to settle disputes over property ownership or boundaries, establishing clear legal title.

Encroachments

9. How is an encroachment different from an easement?
   Answer: An encroachment is an unauthorized intrusion onto another's property, whereas an easement is a legal right to use another's property.
10. What legal remedies are available to a property owner facing an encroachment issue?
    Answer: Remedies include negotiation for removal, monetary compensation, or filing a lawsuit for injunctive relief.

Deeds

11. Differentiate between a grant deed and a quitclaim deed.
    Answer: A grant deed conveys ownership and includes implied warranties of clear title, while a quitclaim deed transfers only the interest the grantor holds without warranties.
12. In what scenario might a quitclaim deed be more appropriate than a grant deed?
    Answer: A quitclaim deed is suitable for transfers between family members or resolving title issues when no warranties are needed.

Title Insurance

13. What is the primary purpose of title insurance?
    Answer: To protect property buyers and lenders against financial loss due to title defects.
14. Identify and describe one common title defect that title insurance can protect against.
    Answer: Examples include unpaid property taxes, undisclosed heirs, or forged documents.
15. How does title insurance ensure the transfer of marketable ownership?
    Answer: By conducting a title search to identify defects and issuing a policy to cover any undiscovered issues.

Homestead Protections

16. What is the purpose of a homestead exemption?
    Answer: To protect a homeowner's equity in their primary residence from certain creditors.
17. Explain how homestead protections safeguard equity in a primary residence.
    Answer: By exempting a specified amount of home equity from forced sale due to unsecured debt or bankruptcy.

FHA Loans

18. What are two benefits of FHA loans for first-time homebuyers?
    Answer: Lower down payment requirements (as low as 3.5%) and more lenient credit qualifications.
19. Describe how FHA loans support energy efficiency upgrades in a home.
    Answer: FHA loans include programs like the FHA Energy Efficient Mortgage, which allows borrowers to finance energy-saving home improvements.

Carryback Financing

20. What is carryback financing, and how does it differ from traditional financing?
    Answer: Carryback financing is seller-provided financing where the seller acts as the lender, unlike traditional financing obtained from a bank.
21. Identify a situation where carryback financing might be advantageous for both buyer and seller.
    Answer: When the buyer lacks sufficient credit to qualify for traditional loans, and the seller is motivated to sell quickly.

Lis Pendens

22. Define the term "lis pendens" and explain its effect on property transactions.
    Answer: A lis pendens is a notice filed in public records indicating a pending lawsuit affecting the property, which discourages transactions until resolved.
23. What steps can a buyer take to protect themselves when purchasing a property with a recorded lis pendens?
    Answer: Buyers can investigate the lawsuit's details, negotiate indemnity clauses, or require the seller to resolve the dispute before closing.

Slide 2: Key Terms Matching

1. C
2. A
3. B

Slide 3: Enforcement of CC&Rs

1. True

Class Presentation: Chapter 38: Common Boundary Structures

Slide 1: Key Terms

- Common Boundary: The dividing line between two adjoining properties, often shared by a fence, wall, or other structures that benefit both owners.
- Improvement: Any structure or addition to the land, such as fences, walls, or buildings, that increases the property's value or utility. Common boundary improvements benefit both property owners.
- Common Boundary Trees: Trees that grow on or near the property line between two properties. The maintenance and responsibility for these trees may be shared by both property owners, depending on the location of the trunk.
- Nuisance: An interference with the use and enjoyment of land, which can include physical structures or activities that affect neighboring properties (e.g., overgrown trees, excessive noise, or unsightly fences).
- Party Wall: A shared wall built on the boundary line between two properties, which serves as a dividing structure and is often maintained jointly by the property owners.

Slide 2: Types of Common Boundary Structures

- Party Wall:
    - A wall located on the boundary line between two properties, commonly found in urban areas. Both property owners have rights and responsibilities related to its maintenance and repair.

- Common Boundary Fence:
  - A fence that separates two properties. The cost of maintaining or replacing the fence is typically shared between both owners, especially if both benefit from the structure.
- Common Boundary Trees:
  - Trees whose trunks straddle the boundary line between two properties. Both neighbors may share the responsibility for maintaining the trees and addressing any damage they cause.

Slide 3: Legal Considerations

- Shared Responsibility:
  - Property owners who share a common boundary structure, such as a party wall or fence, are usually responsible for its upkeep. Agreements on maintenance can be formalized in writing.
- Nuisance:
  - If a boundary structure (e.g., an overhanging tree or deteriorating wall) causes a nuisance to a neighbor, legal action may be taken to resolve the issue. Common nuisances can include damage to property or obstruction of views.

Student Exercise: Chapter 38: Common Boundary Structures

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Party Wall
2. ______ Nuisance
3. ______ Common Boundary Trees

Definitions:

(A) Trees growing on or near property lines, shared by neighboring property owners.

(B) A wall shared between two properties, with maintenance responsibilities for both owners.

(C) Interference with the use and enjoyment of property, such as noise or overgrown vegetation.

Slide 2: Legal Considerations

True or False: ____________________

1. Property owners can take legal action if a common boundary structure creates a nuisance.

Answer Key: Chapter 38

Slide 1: Key Terms Matching

1. B
2. C
3. A

Slide 2: Legal Considerations

1. True

Class Presentation: Chapter 39: Encroachments: Crossing the Line

Slide 1: Key Terms

- Boundary Dispute: A disagreement between neighboring property owners regarding the location of the property line, often arising from unclear or inaccurate surveys.
- Encroachment: A physical structure or object, such as a fence or building, that extends beyond the boundary line of one property and onto another property without permission.
- Laches: A legal doctrine that bars a party from asserting a claim if they have unreasonably delayed taking action, thereby causing harm or disadvantage to another party.
- Nuisance: An activity or condition that interferes with the use and enjoyment of property, such as noise, obstruction, or damage caused by an encroaching structure.
- Trespass: The unlawful entry onto another person's property without permission, which can include physical presence or the placement of objects (e.g., fences, buildings) over the boundary line.

Slide 2: Types of Encroachments

- Physical Encroachment:
  - This occurs when a structure, such as a fence or shed, extends across the legal property boundary into a neighbor's land without permission.
- Natural Encroachment:
  - Trees, plants, or other natural elements that grow beyond the property line and onto neighboring land. In such cases, the encroaching property owner may be responsible for any damage caused.
- Intentional Encroachment:
  - When a property owner knowingly builds or extends structures beyond their boundary line, possibly causing disputes with neighbors.

Slide 3: Legal Remedies for Encroachments

- Trespass:
  - Encroachments can be considered a form of trespass if they physically cross property lines. The affected party can take legal action to remove the encroachment or seek damages.
- Boundary Disputes:
  - These disputes often require professional land surveys and legal intervention to determine the correct boundary line. Once established, encroachments can be removed or adjusted.
- Doctrine of Laches:
  - If an encroachment has been present for a long time without objection, the doctrine of laches may prevent the affected party from seeking legal remedies. The courts may deem that the property owner waived their right to object by not acting sooner.

Slide 4: Resolving Encroachments

- Negotiation and Agreements:
  - Neighbors may come to a mutual agreement on how to handle an encroachment, such as granting an easement or adjusting the boundary line.

- Legal Action:
  - If an agreement cannot be reached, property owners may file a lawsuit to resolve the encroachment. Courts can order the removal of the encroachment or require compensation for damages.

Student Exercise: Chapter 39: Encroachments: Crossing the Line

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Encroachment
2. ______ Boundary Dispute
3. ______ Trespass

Definitions:

(A) A structure or object that extends onto another's property without permission.

(B) A disagreement over the exact location of a property line.

(C) The unlawful entry onto another person's property, either directly or through objects.

Slide 2: Resolving Encroachments

True or False: ________________

1. If an encroachment remains unchallenged for a long period, the doctrine of laches may apply, barring legal action.

Answer Key: Chapter 39

Slide 1: Key Terms Matching

1. A
2. B
3. C

Slide 2: Resolving Encroachments

1. True

Class Presentation: Chapter 40: Easements: Running or Personal

Slide 1: Key Terms

- Appurtenant Easement: An easement that benefits a specific piece of land (dominant tenement) and is attached to the property. It passes with the land when the property is sold.
- Conservation Easement: A legal agreement that limits certain types of development on a property to preserve its natural resources. This easement is often granted to a land trust or government agency.
- Dominant Tenement: The property that benefits from an easement. The owner of the dominant tenement has the right to use the easement over the servient tenement.
- Easement: A legal right to use someone else's land for a specific purpose, such as access, utilities, or conservation.
- Easement in Gross: An easement that benefits a person or entity rather than a specific parcel of land. It is often personal and does not run with the land.
- Ingress and Egress: The legal right to enter (ingress) and exit (egress) a property through an easement, typically used for access roads or driveways.
- Servient Tenement: The property that is burdened by the easement. The servient tenement must allow the use of its land by the dominant tenement.
- Solar Easement: A specific easement that grants the right to access sunlight across adjoining properties, usually to protect solar panels from obstruction by neighboring structures or vegetation.

Slide 2: Types of Easements

- Appurtenant Easement:
    - This easement is tied to the land and benefits the dominant tenement. It is automatically transferred with the sale of the property and typically involves rights of access, such as a shared driveway.
- Easement in Gross:

- This easement benefits an individual or entity rather than a piece of land. It is often used for utility companies to access power lines, pipelines, or other infrastructure.

- Conservation Easement:
  - A voluntary legal agreement that limits land use to protect its conservation values, often preventing development and preserving open space, farmland, or natural habitats.

Slide 3: Easement Rights and Responsibilities

- Dominant Tenement:
  - The dominant tenement holds the right to use the easement for the specified purpose, such as access, utilities, or sunlight (in the case of solar easements).
- Servient Tenement:
  - The servient tenement must allow the use of its property as defined by the easement but retains all other property rights not affected by the easement.
- Ingress and Egress:
  - Easements often involve the right to ingress and egress, providing access to landlocked properties or ensuring a clear path for driveways or roads.

Student Exercise: Chapter 40: Easements: Running or Personal

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Appurtenant Easement
2. ______ Easement in Gross
3. ______ Dominant Tenement
4. ______ Servient Tenement

Definitions:

(A) Property benefiting from an easement.

(B) Property burdened by an easement.

(C) An easement attached to the land and passed with ownership.

(D) An easement benefiting an individual or entity, not tied to the land.

Slide 2: Easement Rights

True or False: _______________

1. A solar easement grants access to sunlight across adjacent properties for solar energy systems.

Answer Key: Chapter 40

Slide 1: Key Terms Matching

1. C
2. D
3. A
4. B

Slide 2: Easement Rights

1. True

Class Presentation: Chapter 41: Creating an Easement

Slide 1: Key Terms

- Easement by Necessity: An easement created when a property is landlocked and requires access to a public road. This easement is necessary for the use and enjoyment of the property.
- Implied Easement: An easement that is not explicitly stated in a deed but is inferred from the circumstances, such as prior use of the land that indicates an easement is necessary for access or utility.
- Prescriptive Easement: An easement acquired through continuous and open use of the property without the owner's permission over a statutory period, often similar to adverse possession.

Slide 2: Methods of Creating an Easement

- Easement by Necessity:
    - Occurs when a landlocked property requires access to a public road or utilities. The court may grant an easement to ensure the property has ingress and egress.
- Implied Easement:
    - Created by prior use of the land, such as a shared driveway or utility lines, even though it was not mentioned in the deed. The easement is implied because it is necessary for the reasonable use of the property.
- Prescriptive Easement:
    - Acquired through adverse use of the property for a specific purpose (e.g., a path or road) without the owner's permission. To establish a prescriptive easement, the use must be continuous, open, and notorious for a statutory period, typically 5-10 years.

Slide 3: Legal Considerations

- Establishing Easements by Necessity:
    - Courts may grant an easement by necessity to ensure that landlocked properties have access to public roads or essential utilities, preserving the property's value and usability.
- Implied Easements and Prior Use:
    - When property is subdivided, an implied easement may arise based on previous use, such as shared access or utility lines. This use must have been apparent and continuous before the property was divided.
- Prescriptive Easements and Statutory Periods:
    - To claim a prescriptive easement, the claimant must prove they have used the land for a specific purpose without permission for the statutory period. Courts may require the property owner to formally recognize this right.

Student Exercise: Chapter 41: Creating an Easement

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Express Grant
2. ______ Prescription
3. ______ Necessity

Definitions:

(A) Easement created by long-term use without the owner's permission but meeting legal requirements.

(B) Easement established to provide access when landlocked properties have no legal route.

(C) Easement explicitly created in writing between the property owner and the beneficiary.

Slide 2: Legal Documentation

True or False: ________________

1. Easements created by necessity automatically terminate once alternative access is established.

Answer Key: Chapter 41

Slide 1: Key Terms Matching

1. C
2. A
3. B

Slide 2: Legal Documentation

1. True

Class Presentation: Chapter 42: Termination of Easements

Slide 1: Key Terms

- Abandonment: The intentional relinquishment of an easement by the dominant tenement through non-use and an overt act showing the intent to abandon the easement.
- Forfeiture: The loss of an easement due to failure to comply with specific conditions or terms associated with the easement, which results in the termination of the easement rights.
- Merger: The termination of an easement that occurs when the dominant and servient tenements come under the ownership of the same person. Since one cannot hold an easement over their own property, the easement is terminated.

Slide 2: Methods of Termination

- Abandonment: Easements can be terminated if the dominant tenement owner no longer uses the easement and takes steps that indicate they have no intention of using it again. Courts often require clear evidence of both non-use and intent to abandon.
- Forfeiture: If the easement is conditional, and the dominant tenement fails to meet those conditions, the easement may be terminated through forfeiture. For example, failing to maintain a shared driveway as stipulated in the easement terms could result in forfeiture.
- Merger: If the dominant and servient properties are combined under one ownership, the easement is extinguished because an individual cannot hold an easement over their own property.

Slide 3: Legal and Voluntary Termination

- Written Release:
  - The dominant tenement can voluntarily terminate the easement by signing a written release, relinquishing their rights to use the easement.
- Expiration:
  - If the easement was granted for a specific time period or event (e.g., construction access), it naturally terminates when the time period expires or the event occurs.
- Court Action:

- In some cases, the servient tenement can seek legal action to terminate the easement if they can prove abandonment or failure to comply with easement terms.

Student Exercise: Chapter 42: Termination of Easements

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Abandonment
2. ______ Merger
3. ______ Release

Definitions:

(A) Termination of an easement when the dominant and servient tenements are owned by the same person.

(B) Written agreement by the easement holder to relinquish their rights.

(C) Non-use of an easement, coupled with intent to give up the right.

Slide 2: Legal Effects of Termination

True or False: ________________

1. An easement created by necessity automatically terminates when the necessity no longer exists.

Answer Key: Chapter 42

Slide 1: Key Terms Matching

1. C
2. A
3. B

Slide 2: Legal Effects of Termination

1. True

Class Presentation: Chapter 43: Trespass: A Violation of Possession

Slide 1: Key Terms

- Actual Money Losses: The tangible financial damages suffered by a property owner due to trespass, such as costs for repairing damage to the property.
- Adverse Possession: A legal doctrine that allows a person to claim ownership of land if they have occupied it openly, continuously, and without permission for a statutory period, typically 5-10 years.
- Ejectment: A legal action to recover possession of property from someone unlawfully occupying it, including a trespasser or holdover tenant.
- Nominal Money Losses: A small amount of monetary damages awarded when a trespass has occurred but the property owner did not suffer significant financial loss.
- Misdemeanor: A criminal offense that may be charged in cases of intentional or repeated trespass, which is typically punishable by a fine or short-term imprisonment.
- Trespass: The unlawful entry onto another person’s property without permission, which can include physical entry or the placement of objects on the land.

Slide 2: Types of Trespass

- Physical Trespass:
  - Occurs when a person enters or remains on another's property without permission. This can involve walking on the land, placing objects on it, or even driving vehicles across it.
- Indirect Trespass:
  - Can occur when a person allows something under their control, such as water or debris, to invade another’s property, even if they did not physically enter the land themselves.

Slide 3: Legal Remedies for Trespass

- Ejectment:
  - Property owners can file an ejectment lawsuit to remove a trespasser from their land. This legal action is commonly used to regain possession from individuals unlawfully occupying the property.
- Actual and Nominal Damages:
  - If trespass results in property damage, the owner can sue for actual money losses to recover the cost of repairs. Even if no significant damage occurs, the owner may still recover nominal damages as recognition of their property rights.

Slide 4: Adverse Possession and Trespass

- Adverse Possession:
  - In some cases, continuous and open trespass can lead to a claim of ownership through adverse possession. To establish adverse possession, the trespasser must meet specific legal requirements, including continuous occupation for the statutory period.
- Misdemeanor and Civil Action:
  - Intentional or repeated trespass can result in both civil action for damages and criminal charges. A trespasser may be charged with a misdemeanor if the trespass is willful or malicious.

Student Exercise: Chapter 43: Trespass: A Violation of Possession

Slide 1: Key Terms

Match the key terms with their definitions:

1. _______ Trespass
2. _______ Injunctive Relief
3. _______ Damages

Definitions:

(A) Legal remedy ordering a trespasser to cease actions and leave the property.

(B) Entry onto property without the owner's consent.

(C) Monetary compensation for harm caused by trespass.

Slide 2: Legal Rights of Property Owners

True or False: _______________

1. A property owner can use reasonable force to remove a trespasser after requesting them to leave.

Answer Key: Chapter 43

Slide 1: Key Terms Matching

1. B
2. A
3. C

Slide 2: Legal Rights of Property Owners

1. True

Class Presentation: Chapter 44: Nuisance: Offensive, Unhealthful, or Obstructive

Slide 1: Key Terms

- Continuing Nuisance: A nuisance that recurs over time, such as persistent loud noise or pollution, and can be abated or removed. Legal action can be taken for each recurrence.
- Nuisance: An activity or condition that unreasonably interferes with the use and enjoyment of property, such as excessive noise, odors, or hazardous conditions.
- Nuisance Per Se: A condition or activity that is inherently harmful or illegal and constitutes a nuisance without needing to prove its effect, such as operating a business without proper permits.
- Permanent Nuisance: A nuisance that is considered to have a permanent effect on the property, such as the construction of a structure that blocks sunlight or views. Legal action must typically be taken within a limited time frame.

- Public Nuisance: A nuisance that affects the general public or a large group of people, rather than a specific individual. Public nuisances can include obstructing public roads, creating health hazards, or conducting illegal business operations.

Slide 2: Types of Nuisances

- Public Nuisance:
  - This type of nuisance affects a broad group of people or the general public, often requiring government intervention or a public lawsuit. Examples include illegal dumping, pollution, or blocking public access roads.
- Private Nuisance:
  - Affects a specific individual or property owner, such as a neighbor's loud music or noxious odors. The affected party can take legal action to stop the nuisance and recover damages.
- Nuisance Per Se:
  - An action or condition that is deemed harmful by its nature, such as violating building codes or health and safety laws. It is considered a nuisance without needing to prove its impact.

Slide 3: Legal Remedies for Nuisance

- Continuing Nuisance:
  - Can be abated through legal action, with the affected party able to file a lawsuit for each recurring instance. This includes nuisances that can be stopped, such as noise or pollution.
- Permanent Nuisance:
  - If the nuisance is considered permanent, such as a building that obstructs views or light, the affected party may seek damages for the decrease in property value. However, legal action must be taken within a statute of limitations.
- Injunctions:
  - Courts may issue injunctions to stop the nuisance from continuing, requiring the responsible party to cease the activity or remove the offending condition.

Student Exercise: Chapter 44: Nuisance: Offensive, Unhealthful, or Obstructive

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Private Nuisance
2. ______ Public Nuisance
3. ______ Abatement

Definitions:

(A) Interference affecting an individual or a small group's use of property.

(B) Legal action to eliminate or reduce a nuisance.

(C) Interference affecting the general public or a large group.

Slide 2: Remedies for Nuisance

True or False: ________________

1. Property owners can request abatement through local government agencies for public nuisances.

Answer Key: Chapter 44

Slide 1: Key Terms Matching

1. A
2. C
3. B

Slide 2: Remedies for Nuisance

1. True

Class Presentation: Chapter 45: Boundary Disputes

Slide 1: Key Terms

- Agreed-Boundary Doctrine: A legal principle that allows property owners to establish a boundary line based on mutual agreement, even if it does not match the official property records. Once agreed upon, the boundary is legally binding.
- Lot Line Adjustment: A legal process by which neighboring property owners can alter their shared boundary line. The adjustment is typically made to resolve discrepancies or improve the usability of the land.
- Statute of Limitations: A legal deadline for bringing a lawsuit to resolve a boundary dispute. In real estate, the statute of limitations often applies to adverse possession claims or property disputes over established boundaries.

Slide 2: Resolving Boundary Disputes

- Agreed-Boundary Doctrine:
    - Neighbors may resolve a boundary dispute by mutually agreeing on a new boundary, even if it differs from official property records. Once both parties consent and the boundary is clearly marked, it becomes legally enforceable.
- Lot Line Adjustment:
    - Property owners can formally adjust their boundary lines through a lot line adjustment, which must be approved by local authorities. This process is often used to correct property line discrepancies or resolve disputes without going to court.

Slide 3: Legal Considerations and the Statute of Limitations

- Statute of Limitations:
    - Property owners must take legal action within a specific time period to resolve boundary disputes, typically 5 to 10 years. Failing to act within the statute of limitations may prevent the property owner from making a legal claim.
- Adverse Possession and Statute of Limitations:
    - If a property owner has occupied disputed land openly, continuously, and without permission for a statutory period, they may be able to claim ownership through

adverse possession. However, this requires compliance with the statute of limitations.

Slide 4: Legal Remedies for Boundary Disputes

- Mediation and Agreement:
  - Many boundary disputes can be resolved through negotiation or mediation, where both parties agree on a mutually acceptable boundary.
- Court Action:
  - If mediation fails, property owners can file a lawsuit to resolve the boundary dispute. Courts may enforce the agreed-boundary doctrine or order a lot line adjustment based on legal and survey evidence.

Student Exercise: Chapter 45: Boundary Disputes

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Boundary Survey
2. ______ Quiet Title Action
3. ______ Adverse Possession

Definitions:

(A) A lawsuit to establish ownership when boundaries are disputed.

(B) Legal process of gaining ownership by continuous, open use of another's property.

(C) Professional assessment of property lines to clarify boundaries.

Slide 2: Resolving Disputes

True or False: ________________

1. Adverse possession requires continuous use of the property for at least five years in California.

Answer Key: Chapter 45

Slide 1: Key Terms Matching

1. C
2. A
3. B

Slide 2: Resolving Disputes

1. True

Class Presentation: Chapter 46: A Deed as Transfer

Slide 1: Key Terms

- Adverse Possession: A legal doctrine that allows a person to claim ownership of property if they have occupied it openly, continuously, and without permission for a statutory period, often 5-10 years.
- Common Description: A general description of property used in a deed, often referring to identifiable boundaries, landmarks, or subdivision plats.
- Fee Simple: The most complete form of property ownership, giving the owner absolute control over the property, including the right to sell, lease, or transfer it.
- Grant: The transfer of real property from one person (the grantor) to another (the grantee) through a deed.
- Grant Deed: A type of deed in which the grantor guarantees that the property is free from undisclosed encumbrances and that they hold title to the property being transferred.
- Grantee: The person or entity receiving property through a deed.
- Grantor: The person or entity transferring ownership of the property through a deed.
- Legal Description: A precise description of a property's boundaries and location, often using a survey or subdivision map to define the property being transferred.
- Quitclaim Deed: A deed that transfers whatever interest the grantor has in the property without any warranties or guarantees about the property's title.

Slide 2: Types of Deeds

- Grant Deed:
  - Provides a guarantee from the grantor that they have not sold the property to someone else and that there are no undisclosed encumbrances, such as liens or claims against the property.
- Quitclaim Deed:
  - Transfers whatever interest the grantor has in the property without any guarantees. It is commonly used to clear up title issues or transfer property between family members.

Slide 3: Legal Considerations in Deed Transfers

- Fee Simple Ownership:
  - Deeds often transfer property in fee simple, which gives the grantee the most complete ownership rights, including the ability to use, sell, or lease the property.
- Legal Descriptions and Common Descriptions:
  - Deeds must include a legal description of the property, ensuring there is no ambiguity about the land being transferred. Common descriptions may also be used when the property's boundaries are well-known and identifiable.
- Adverse Possession:
  - In some cases, a grantee may claim ownership of property through adverse possession if they have openly and continuously occupied the land for a statutory period, even without the grantor's formal transfer.

Student Exercise: Chapter 46: A Deed as Transfer

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Fee Simple
2. ______ Grantor
3. ______ Legal Description

Definitions:

(A) The individual transferring property ownership through a deed.

(B) The most complete form of ownership, allowing unrestricted use, transfer, and inheritance of property.

(C) A precise description of property boundaries, often using a survey or subdivision map.

Slide 2: Types of Deeds

True or False: _______________

1. A quitclaim deed provides no guarantees or warranties about the property title.

Answer Key: Chapter 46

Slide 1: Key Terms Matching

1. B
2. A
3. C

Slide 2: Types of Deeds

1. True

Class Presentation: Chapter 47: Grant Deed vs. Quitclaim Deed

Slide 1: Key Terms

- Encumbrance: A claim, lien, or liability attached to a property, such as a mortgage, easement, or judgment lien, which may limit the property's transferability or use.
- Grant Deed: A deed that guarantees the grantor has not transferred the property to anyone else and that the property is free from undisclosed encumbrances. It provides greater protection to the grantee than a quitclaim deed.
- Implied Covenant: A legally binding promise that is not explicitly stated in the deed but is implied by law, such as the grantor's promise that they hold clear title to the property being transferred.

- Quitclaim Deed: A deed that transfers whatever interest the grantor has in the property without making any warranties or guarantees about the title. The grantee accepts the property as-is, with no protection against future claims.
- Reformation: A legal process used to correct or amend a deed if there was a mistake or error in the original document, such as a misdescription of the property or incorrect legal language.
- Remote Grantee: A future or subsequent owner who acquires title to the property from a prior grantee. The remote grantee's rights may be affected by the terms and conditions in the original deed.

Slide 2: Grant Deed vs. Quitclaim Deed

- Grant Deed:
  - The grantor provides implied covenants, ensuring the property is free from undisclosed encumbrances and that they have not sold the property to another party.
  - Offers more protection to the grantee, especially in terms of the property's title and any potential claims against it.
- Quitclaim Deed:
  - Transfers whatever interest the grantor has in the property, without any guarantees or warranties about the title.
  - Commonly used in non-sale transfers, such as between family members or to clear up title discrepancies but offers no protection to the grantee against future claims.

Slide 3: Legal Implications and Warranties

- Implied Covenant in a Grant Deed:
  - A grant deed includes an implied covenant from the grantor, guaranteeing that they have good title and that there are no hidden encumbrances. The grantor is legally responsible if these covenants are later found to be untrue.
- No Warranties in a Quitclaim Deed:
  - In contrast, a Quitclaim Deed contains no warranties or promises about the property's title. The grantee assumes all risk and cannot hold the grantor responsible for any issues that arise after the transfer.

Slide 4: Reformation and Remote Grantees

- Reformation of Deeds:
  - If there is a mistake in the deed (e.g., incorrect legal description or property boundaries), a court can order the deed to be reformed to correct the error. This process ensures that the deed accurately reflects the intended transfer.
- Remote Grantees:
  - The rights of future owners (remote grantees) depend on the covenants and warranties in the original deed. If a grant deed was used, remote grantees may have legal recourse if a title issue arises, whereas with a quitclaim deed, future owners inherit any title problems without legal recourse.

Student Exercise: Chapter 47: Grant Deed vs. Quitclaim Deed

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Grant Deed
2. ______ Quitclaim Deed
3. ______ Implied Covenant

Definitions:

(A) Transfers property interest without warranties or guarantees.

(B) Guarantees the grantor has not previously transferred the property to another party.

(C) A legally binding promise implied by law in certain deeds.

Slide 2: Legal Implications

True or False: ________________

1. A grant deed includes an implied covenant, whereas a quitclaim deed does not.

Answer Key: Chapter 47

Slide 1: Key Terms Matching

1. B
2. A
3. C

Slide 2: Legal Implications

1. True

Class Presentation: Chapter 48: Delivery, Acceptance, and Validity of Deeds

Slide 1: Key Terms

- Constructive Delivery: A legal doctrine that allows for the delivery of a deed without physical transfer, such as when the deed is placed in the control of a third party (e.g., an escrow agent) with the intent to deliver it to the grantee.
- Documentary Transfer Tax: A tax imposed on the transfer of property, calculated based on the property's sale price or value. It is typically paid at the time of recording the deed.
- Security: In the context of real estate, security refers to the collateral used to secure a loan, such as a mortgage or deed of trust. The property acts as security for the lender until the loan is repaid.
- Void Deed: A deed that is invalid from the outset due to a legal defect, such as forgery or lack of capacity by the grantor. A void deed cannot convey any legal title.
- Voidable Deed: A deed that appears valid but may be declared void due to issues like fraud, duress, or undue influence. A voidable deed can be ratified if the affected party chooses to accept it.

Slide 2: Delivery and Acceptance of Deeds

- Delivery of Deeds:

  - For a deed to be legally effective, it must be delivered to the grantee. Delivery can be actual (physical handover) or constructive, where the intent to deliver is clear even without physical transfer (e.g., through escrow).

- Acceptance of Deeds:
  - The grantee must accept the deed for the transfer to be complete. Acceptance can be explicit (e.g., through a signed acknowledgment) or implied (e.g., when the grantee takes possession of the property).

Slide 3: Validity of Deeds

- Void Deed:
  - A deed is void if it has a fundamental legal flaw, such as a forged signature or if the grantor was mentally incompetent at the time of the transfer. A void deed cannot legally transfer ownership.
- Voidable Deed:
  - A deed may be voidable if the grantor was subject to fraud, duress, or undue influence during the transfer. The deed can be ratified (i.e., confirmed as valid) if the grantor later agrees to the transfer.
- Documentary Transfer Tax:
  - This tax is typically collected at the time of recording the deed and is based on the sale price or market value of the property being transferred. The tax must be paid to make the deed recordable and valid.

Student Exercise: Chapter 48: Delivery, Acceptance, and Validity of Deeds

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Delivery
2. ______ Acceptance
3. ______ Grantor’s Intent

Definitions:

(A) The grantee's acknowledgment and agreement to accept the property transfer.

(B) An action demonstrating the grantor's intention to transfer ownership to the grantee.

(C) The grantor must be legally capable and willing to transfer ownership.

Slide 2: Legal Considerations

True or False: _______________

1. A deed is invalid if it is delivered but not accepted by the grantee.

Answer Key: Chapter 48

Slide 1: Key Terms Matching

1. B
2. A
3. C

Slide 2: Legal Considerations

1. True

Class Presentation: Chapter 49: The Right of Survivorship Among Co-Owners

Slide 1: Key Terms

- Community Property: Property acquired during marriage that is jointly owned by both spouses under California law. Upon the death of one spouse, the surviving spouse retains ownership of half of the community property, and the other half is passed according to the deceased spouse's will or state intestacy laws.
- Fully Stepped-Up Cost Basis: A tax benefit where the cost basis of inherited property is adjusted to its fair market value at the time of the decedent's death. This can significantly reduce capital gains taxes if the property is later sold by the heir.
- Joint Tenancy: A form of co-ownership where two or more people hold equal shares of a property, and each has the right of survivorship. Upon the death of one joint tenant, their share automatically passes to the surviving co-owners.

- Ratify: The legal process of formally approving or confirming a transaction or agreement. In real estate, ratification may occur if one co-owner agrees to a transfer after the fact, solidifying the transaction's validity.
- Right of Survivorship: A legal feature of joint tenancy or community property with right of survivorship that ensures the surviving co-owner(s) automatically inherit the deceased co-owner's share of the property, bypassing probate.
- Set Aside: A legal action to overturn or annul a transaction, such as a property transfer, will, or court judgment. Set-aside actions may occur if a co-owner believes the transfer violated their rights.
- Vesting: The legal process by which an individual gains a right or interest in property. In real estate, vesting refers to the method by which title is held, such as joint tenancy, tenancy in common, or community property.

Slide 2: Right of Survivorship in Co-Ownership

- Joint Tenancy:
    - Joint tenants hold equal shares of the property, and when one tenant dies, their share automatically passes to the surviving joint tenant(s). This right of survivorship avoids probate but must be established at the time of purchase.
- Community Property with Right of Survivorship:
    - Married couples in community property states like California can hold property with a right of survivorship, meaning the surviving spouse automatically inherits the deceased spouse's share of the property without the need for probate.

Slide 3: Tax Implications and Legal Considerations

- Fully Stepped-Up Cost Basis:
    - When property is inherited through joint tenancy or community property with the right of survivorship, the surviving co-owner may benefit from a fully stepped-up cost basis, reducing capital gains taxes on a future sale.
- Set Aside Actions:
    - In cases of fraud, undue influence, or error, a co-owner may file a legal action to set aside a property transfer or will. This can be used to challenge improper transfers that affect the co-ownership agreement.
- Vesting in Co-Ownership:

- How the property is vested (e.g., joint tenancy, tenancy in common) determines the rights of each co-owner and what happens to the property upon the death of one of the owners. Vesting should be carefully considered in real estate transactions to ensure the desired legal and financial outcomes.

Student Exercise: Chapter 49: The Right of Survivorship Among Co-Owners

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Right of Survivorship
2. ______ Joint Tenancy
3. ______ Tenancy in Common

Definitions:

(A) Ownership where co-owners hold equal shares with the right of survivorship.

(B) Ownership where co-owners may have unequal shares, with no right of survivorship.

(C) Legal mechanism ensuring ownership passes directly to surviving co-owners.

Slide 2: Ownership Scenarios

True or False: ________________

1. Joint tenants can sell their interest without consent from other co-owners.

Answer Key: Chapter 49

Slide 1: Key Terms Matching

1. C
2. A
3. B

Slide 2: Ownership Scenarios

1. True

Class Presentation: Chapter 50: The Lis Pendens

Slide 1: Key Terms

- Absolutely Privileged Publication: A legal protection that shields certain communications from defamation claims, such as statements made in court or official filings, including the filing of a lis pendens notice.
- Lis Pendens: A formal notice filed in the public record to inform potential buyers or lenders that there is ongoing litigation involving the property. It acts as a "cloud" on the title, warning that the property's ownership or interest is in dispute.
- Expungement: The legal process of removing a lis pendens from the public record, typically after the resolution of a dispute or if the court finds that the lis pendens was improperly filed.
- Specific Performance: A legal remedy in real estate contracts where the court orders the breaching party to fulfill their obligations under the contract, such as completing the sale of a property rather than paying monetary damages.
- Action: In this context, an action refers to a lawsuit or legal proceeding, particularly one that may affect ownership or interests in a piece of real estate.

Slide 2: The Role of Lis Pendens in Real Estate

- Lis Pendens Notice:
    - A lis pendens is typically filed when a property is involved in a lawsuit. It warns potential buyers, lenders, or investors that the property is subject to litigation, which could affect its ownership or marketability.
- Impact on Transactions:
    - Once a lis pendens is filed, it often halts any sale, refinancing, or other transactions involving the property, as the pending lawsuit must be resolved before the title can be cleared.

Slide 3: Legal Considerations and Remedies

- Specific Performance:
  - In some cases, a lis pendens is filed in a lawsuit where one party is seeking specific performance, meaning they want the court to enforce the terms of a real estate contract rather than awarding financial compensation.
- Expungement of Lis Pendens:
  - A property owner can seek the expungement of a lis pendens if they believe it was filed in bad faith or if the underlying lawsuit is resolved in their favor. Once expunged, the property can be sold or refinanced without the encumbrance of the lis pendens.

Student Exercise: Chapter 50: The Lis Pendens

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Lis Pendens
2. ______ Cloud on Title
3. ______ Legal Claim

Definitions:

(A) Recorded document indicating pending litigation affecting property ownership.

(B) An unresolved issue or claim that affects the marketability of a property title.

(C) A formal assertion of rights or ownership over property.

Slide 2: Effects of Lis Pendens

True or False: ________________

1. A lis pendens prevents the sale of property until litigation is resolved.

Answer Key: Chapter 50

Slide 1: Key Terms Matching

1. A
2. B
3. C

Slide 2: Effects of Lis Pendens

1. False

Class Presentation: Chapter 51: Preliminary Title Reports

Slide 1: Key Terms

- Abstract of Title: A condensed history of the ownership and encumbrances (such as liens or easements) affecting a property, typically compiled from public records and used to determine the condition of the title.
- Date-Down Search: A search conducted just before closing a real estate transaction to ensure that no new liens, encumbrances, or title defects have been recorded since the initial title search or preliminary title report was issued.
- Preliminary Title Report: A report provided by a title insurance company outlining the current ownership, liens, easements, and encumbrances on a property. It is not a guarantee of clear title but a tool to identify potential issues before completing the transaction.

Slide 2: The Purpose of a Preliminary Title Report

- Overview:
    - The preliminary title report is a crucial part of the due diligence process in real estate transactions. It allows the buyer, seller, and lender to review the condition of the property's title before finalizing the sale.

- Identifying Encumbrances:
    - The report identifies existing encumbrances, such as liens, easements, or restrictions, that could affect the property's marketability or the buyer’s ability to obtain financing.

Slide 3: Key Components of Title Reports

- Abstract of Title:
    - The title company compiles an abstract of title to summarize the historical ownership and any encumbrances affecting the property. This document helps assess the title’s condition and whether any unresolved issues may impede the sale.
- Date-Down Search:
    - Just before the transaction closes, the title company conducts a date-down search to ensure no new claims or encumbrances have been recorded. This final step helps protect the buyer and lender from unexpected title issues arising after the preliminary report.

Slide 4: Legal Considerations and Resolving Title Issues

- Resolving Title Defects:
    - If the preliminary title report identifies title defects, such as unresolved liens or boundary disputes, the buyer and seller must work to resolve these issues before the sale can close. This may involve paying off liens, obtaining quitclaim deeds, or seeking court action.
- Title Insurance:
    - After the title issues are cleared, the buyer typically purchases title insurance to protect against any future claims or defects that were not identified in the preliminary title report. The title insurance policy provides long-term protection for the buyer and lender.

Student Exercise: Chapter 51: Preliminary Title Reports

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Preliminary Title Report
2. ______ Title Defects
3. ______ Exclusions

Definitions:

(A) A document listing recorded encumbrances, liens, and easements on a property.

(B) Specific matters not covered by the title insurance policy.

(C) Issues that may affect ownership, such as liens or unresolved encumbrances.

Slide 2: Title Insurance Process

True or False: ________________

1. A preliminary title report guarantees that a title is free of defects.

Answer Key: Chapter 51

Slide 1: Key Terms Matching

1. A
2. C
3. B

Slide 2: Title Insurance Process

1. False

Class Presentation: Chapter 52: Title Insurance

Slide 1: Key Terms

- Abstract of Title: A condensed history of ownership and encumbrances on a property, showing the chain of title and any liens or claims affecting the property.
- Encumbrance: Any claim, lien, or liability attached to a property, such as mortgages, easements, or tax liens, which may affect the property's transferability or use.
- Exception: Specific items listed in a title insurance policy that are not covered by the insurance. These typically include known defects or liens that the title insurer will not protect against.
- Exclusion: General items that are not covered by title insurance, such as government regulations, zoning laws, or defects arising after the policy is issued.
- Preliminary Title Report (Prelim):
  A report that outlines the current state of the property's title, including any encumbrances or liens. It is issued before the final title policy and serves as a tool for identifying issues.
- Proof-of-Loss Statement: A formal statement submitted to the title insurance company by the insured, detailing a loss or defect in title that may require compensation under the insurance policy.
- Schedule A: The part of a title insurance policy that details the coverage provided, including the property description, ownership information, and the amount of insurance.
- Schedule B: The part of the title insurance policy that lists exceptions to coverage, such as specific liens, easements, or encumbrances that the policy does not cover.
- Title Insurance: An insurance policy that protects property owners and lenders from financial loss due to defects in the property's title, such as undiscovered liens, encumbrances, or ownership disputes.

Slide 2: Purpose of Title Insurance

- Protection Against Title Defects:
  - Title insurance protects buyers and lenders from financial losses resulting from issues with the property's title, such as undisclosed liens, forged documents, or competing ownership claims.

- Preliminary Title Report (Prelim):
  - The prelim is a preliminary review of the property's title, outlining any known encumbrances, liens, or ownership issues. The buyer, seller, and lender can review the report before the final sale to resolve any title issues.

Slide 3: Components of Title Insurance Policies

- Schedule A:
  - Contains critical details about the policy, including the insured party, the property's legal description, the amount of coverage, and the effective date of the policy.
- Schedule B:
  - Lists exceptions to the policy, such as existing liens, easements, or other encumbrances that will not be covered by the title insurance. Buyers and lenders must address these exceptions before closing the transaction.

Slide 4: Legal Considerations

- Exceptions and Exclusions:
  - Buyers should carefully review the exceptions and exclusions in a title policy to understand what is not covered. Common exclusions include zoning regulations and defects discovered after the policy's issuance.
- Proof-of-Loss Statement:
  - If a title issue arises after the sale, the property owner or lender must submit a proof-of-loss statement to the title insurance company to seek compensation for the defect.

Student Exercise: Chapter 52: Title Insurance

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Title Insurance
2. ______ Owner's Policy
3. ______ Lender's Policy

Definitions:

(A) Protects the buyer's ownership rights against undisclosed defects.

(B) Covers the lender's interest in the property in case of title defects.

(C) A policy insuring against title defects discovered after purchase.

Slide 2: Policy Coverage

True or False: _______________

1. Title insurance policies cover all future encumbrances placed on the property.

Answer Key: Chapter 52

Slide 1: Key Terms Matching

1. C
2. A
3. B

Slide 2: Policy Coverage

1. False

Class Presentation: Chapter 53: Automatic and Declared Homesteads

Slide 1: Key Terms

- Abstract of Judgment: A summary of a court judgment that creates a lien on the debtor's property. This lien can be used to enforce the judgment, typically by allowing the creditor to seize or sell the property.
- Declaration of Homestead: A legal document filed by a homeowner that formally declares their property as a homestead, providing additional protection from creditors and ensuring that a certain amount of the property's equity is exempt from forced sale.
- Homestead: A legal protection that shields a homeowner's primary residence from certain creditors, preventing them from seizing or selling the property to satisfy unsecured debts.

- Quiet Title: A legal action used to resolve disputes over property ownership or title defects. It can be used to "quiet" competing claims to the title, ensuring clear ownership for the property holder.

Slide 2: Automatic vs. Declared Homesteads

- Automatic Homestead:
  - California law automatically grants homestead protection to a homeowner's primary residence, protecting a portion of the property's equity from unsecured creditors. This protection does not require filing a declaration.
- Declared Homestead:
  - A homeowner can file a declaration of homestead with the county recorder's office to enhance their homestead protection. This formal declaration may provide additional legal benefits, such as securing equity after the sale of the property.

Slide 3: Legal Protections and Considerations

- Homestead Protection Limits:
  - Homestead protection limits the amount of a property's equity that can be seized by creditors in a forced sale. The amount varies based on the homeowner's age, disability status, or dependents.
- Abstract of Judgment:
  - Creditors can file an abstract of judgment to place a lien on a debtor's property. However, homestead protections may prevent creditors from enforcing the lien on the homeowner's primary residence.

Slide 4: Legal Remedies and Quiet Title Actions

- Quiet Title:
  - A quiet title action can be used to clear up disputes over ownership or title defects. For example, if a homeowner has conflicting claims on their property's title, they can file a quiet title lawsuit to resolve the issue and ensure clear ownership.
- Declaration of Homestead and Sale Proceeds:
  - If a homeowner sells their declared homestead, the protection may extend to the sale proceeds for a certain period, allowing the homeowner to reinvest the money in another homestead property.

Student Exercise: Chapter 53: Automatic and Declared Homesteads

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Declared Homestead
2. ______ Automatic Homestead
3. ______ Exemption Amount

Definitions:

(A) Protection automatically provided by state law for a primary residence.

(B) A recorded document establishing homestead protection.

(C) The dollar amount protected from judgment creditors.

Slide 2: Homestead Protection

True or False: _______________

1. A declared homestead offers greater protection than an automatic homestead.

Answer Key: Chapter 53

Slide 1: Key Terms Matching

1. B
2. A
3. C

Slide 2: Homestead Protection

1. True

Class Presentation: Chapter 54: Conventional Financing on a Sale, and the Buyer's Agent

Slide 1: Key Terms

- Loan Estimate: A standardized document provided by lenders that outlines the estimated costs, terms, and interest rates of a mortgage. It must be provided to the buyer within three business days of submitting a loan application.
- Mortgage Shopping: The process by which a buyer compares mortgage offers from multiple lenders to find the best terms, including interest rates, fees, and repayment conditions.
- Worksheet: A tool used by buyers or their agents to compare different loan options, factoring in interest rates, fees, and total costs, to determine the most favorable mortgage.
- Transaction Agent (TA): A real estate professional who represents both the buyer and seller in a transaction or acts as a facilitator, helping both parties complete the transaction without advocating for either.
- Uniform Residential Loan Application: A standard loan application form (Fannie Mae Form 1003) used by lenders to collect financial information from borrowers applying for a mortgage.

Slide 2: Role of the Buyer's Agent in Financing

- Guidance Through the Process:
  - The buyer's agent helps the client navigate the mortgage process, including comparing loan offers, understanding the terms of the Loan Estimate, and working with lenders.
- Mortgage Shopping Assistance:
  - Agents assist buyers in mortgage shopping by providing resources, worksheets, and advice on selecting the best loan terms based on the buyer's financial situation.

Slide 3: Understanding Loan Estimates and Applications

- Loan Estimate:

  - Buyers receive a Loan Estimate within three days of applying for a mortgage. This document outlines the key terms of the loan, including the interest rate, monthly payment, closing costs, and any prepayment penalties.
- Uniform Residential Loan Application:
  - The standardized form used by all mortgage lenders to collect information from potential borrowers. It covers the borrower's income, assets, debts, and credit history to assess their mortgage eligibility.

Slide 4: Legal and Financial Considerations

- Transaction Agent (TA) Role:
  - A transaction agent (TA) facilitates the sale by helping both parties complete the necessary paperwork and navigate the financing process. However, they do not advocate for either party's interests, unlike a traditional buyer's agent.
- Mortgage Comparison and Decision:
  - Buyers, with the help of their agents, must carefully review the Loan Estimates from multiple lenders to choose the best mortgage option. Worksheets are often used to organize and compare these offers.

Student Exercise: Chapter 54: Conventional Financing on a Sale and the Buyer's Agent

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Conventional Loan
2. ______ Down Payment
3. ______ Pre-Approval

Definitions:

(A) Buyer qualification for a specific loan amount based on income and creditworthiness.

(B) Initial payment made by the buyer, reducing the amount financed.

(C) A mortgage not backed by government programs, such as FHA or VA.

Slide 2: Financing Considerations

True or False: _______________

1. Conventional loans often require private mortgage insurance (PMI) for down payments below 20%.

Answer Key: Chapter 54

Slide 1: Key Terms Matching

1. C
2. B
3. A

Slide 2: Financing Considerations

1. True

Class Presentation: Chapter 55: The Uniform Residential Loan Application and Post-Submission Activities

Slide 1: Key Terms

- Balance Sheet: A financial statement that shows a buyer's assets, liabilities, and net worth, often used by lenders to assess the buyer's financial health and ability to repay the mortgage.
- Buyer Mortgage Capacity: The maximum loan amount a buyer can qualify for, based on their income, debt levels, credit score, and other financial factors.
- Creditworthiness: A measure of a borrower's ability to repay a loan, determined by factors such as credit score, credit history, income, and debt levels.
- Debt-to-Income Ratio (DTI): A ratio used by lenders to assess how much of a buyer's monthly income is spent on debt payments. A lower DTI indicates a better ability to manage mortgage payments.

- Loan-to-Value Ratio (LTV):A ratio that compares the loan amount to the property's appraised value. A lower LTV means the buyer has a larger down payment and less risk for the lender.
- Mortgage Package:The complete set of documents submitted to a lender for loan approval, including the loan application, proof of income, asset verification, and credit reports.
- Real Estate Settlement Procedures Act (RESPA):A federal law that regulates the disclosure of settlement costs and the process for buying a home, ensuring transparency and protecting consumers from abusive practices during the real estate settlement process.
- Transaction Agent (TA):A professional who acts as a neutral party in a real estate transaction, ensuring all required documents, including the loan application, are properly submitted and processed.
- Uniform Residential Loan Application:A standard mortgage application form (Fannie Mae Form 1003) that collects detailed information about the borrower's income, assets, liabilities, and credit history.

Slide 2: Components of the Uniform Residential Loan Application

- Income and Assets:
    - The application collects information about the borrower's income sources, such as wages, investments, and savings. The balance sheet provides a snapshot of the borrower's financial health, showing assets and liabilities.
- Debt-to-Income Ratio (DTI):
    - Lenders use the DTI ratio to ensure the borrower is not overextended financially. A lower DTI means the borrower has sufficient income to handle their current debts and the new mortgage payment.

Slide 3: Post-Submission Activities

- Creditworthiness Evaluation:
    - After the loan application is submitted, the lender reviews the borrower's credit history, income, and other financial factors to determine their creditworthiness and mortgage capacity.
- Loan-to-Value Ratio (LTV):
    - The LTV ratio is calculated to assess the buyer's down payment. A lower LTV reduces the lender's risk, potentially leading to better loan terms for the buyer.

Slide 4: Compliance and Legal Considerations

- RESPA Compliance:
  - Lenders must comply with the Real Estate Settlement Procedures Act (RESPA), ensuring that borrowers receive clear and accurate information about their loan terms, closing costs, and settlement process. RESPA prohibits kickbacks and unearned fees during the mortgage transaction.
- Mortgage Package Review:
  - Once the lender has reviewed the complete mortgage package, including the Uniform Residential Loan Application and supporting documents, they will issue a loan approval, conditional approval, or denial based on the borrower's creditworthiness and financial capacity.

Student Exercise: Chapter 55: The Uniform Residential Loan Application and Post-Submission Activities

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Uniform Residential Loan Application (URLA)
2. ______ Underwriting
3. ______ Loan Processor

Definitions:

(A) Individual responsible for gathering and verifying loan documents.

(B) The process of evaluating a borrower's creditworthiness and ability to repay a loan.

(C) Standardized form used by lenders to gather information from borrowers.

Slide 2: Loan Submission Process

True or False: ________________

1. Lenders may deny a loan application if discrepancies are found during the underwriting process.

Answer Key: Chapter 55

Slide 1: Key Terms Matching

1. C
2. B
3. A

Slide 2: Loan Submission Process

1. True

Chapter 56: The FHA-Insured Home Mortgage

Slide 1: Key Terms

- Energy Efficient Mortgage (EEM): A loan program that allows borrowers to finance energy-efficient improvements to their homes as part of their FHA-insured mortgage. It helps reduce utility costs by enabling energy-saving upgrades.
- Federal Housing Administration (FHA)-Insured Mortgage: A mortgage backed by the Federal Housing Administration, which insures the lender against losses if the borrower defaults. FHA loans are designed to make homeownership accessible by allowing lower down payments and more flexible credit requirements.
- Fixed Payment Ratio: A ratio used to assess a borrower's ability to make fixed mortgage payments. It compares the borrower's monthly fixed payments (including mortgage, taxes, and insurance) to their gross monthly income.
- Loan-to-Value (LTV) Ratio: A ratio that compares the loan amount to the appraised value or purchase price of the property. FHA loans typically allow higher LTV ratios, meaning buyers can make smaller down payments.
- Mortgage Insurance Premium (MIP): An insurance premium that FHA borrowers must pay to insure the loan. The MIP protects the lender if the borrower defaults on the mortgage. It includes an upfront premium and annual payments.

- Mortgage Payment Ratio: A ratio that compares the borrower's total monthly mortgage payment (including principal, interest, taxes, and insurance) to their gross monthly income. It helps determine the borrower's capacity to afford the loan.
- Real Estate Settlement Procedures Act (RESPA): A federal law that ensures transparency in the home-buying process by requiring lenders to provide clear disclosures of loan terms, fees, and settlement costs. RESPA also prohibits kickbacks and unearned fees.

Slide 2: FHA Loan Features

- Lower Down Payments:
    - FHA loans typically require down payments as low as 3.5% of the property's purchase price, making homeownership more accessible to buyers with limited savings.
- Mortgage Insurance Premium (MIP):
    - Borrowers must pay both an upfront MIP at closing and annual MIP payments. The MIP is required for the life of the loan unless the borrower refinances into a non-FHA mortgage.

Slide 3: Ratios and Qualification Criteria

- Fixed Payment Ratio:
    - This ratio, also known as the front-end ratio, helps assess a borrower's ability to manage fixed housing costs. FHA loans typically allow a higher ratio compared to conventional loans, enabling borrowers with lower incomes to qualify.
- Mortgage Payment Ratio:
    - The total mortgage payment ratio, or back-end ratio, includes all monthly debts in addition to the mortgage payment. FHA loans often allow higher back-end ratios, making them more accessible for borrowers with existing debt.

Slide 4: Energy Efficient Mortgage (EEM)

- Energy-Efficient Upgrades:
    - Borrowers using an FHA loan can include energy-efficient improvements in their mortgage with an EEM. These upgrades, such as new windows or insulation, reduce utility costs and increase the home's value.
- FHA Loan Advantages:

- The combination of lower down payments, higher LTV ratios, and flexibility in credit requirements makes FHA loans ideal for first-time homebuyers or those with less-than-perfect credit.

Student Exercise: Chapter 56: The FHA-Insured Home Mortgage

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ FHA Loan
2. ______ Mortgage Insurance Premium (MIP)
3. ______ Loan Limits

Definitions:

(A) Maximum loan amounts set by the FHA based on property location.

(B) Insurance paid by the borrower to protect the lender against losses from default.

(C) A mortgage insured by the Federal Housing Administration to reduce lender risk.

Slide 2: FHA Loan Characteristics

True or False: ________________

1. FHA loans require borrowers to pay both an upfront and annual Mortgage Insurance Premium (MIP).

Answer Key: Chapter 56

Slide 1: Key Terms Matching

1. C
2. B
3. A

Slide 2: FHA Loan Characteristics

1. True

Class Presentation: Chapter 57: Carryback Financing in Lieu of Cash

Slide 1: Key Terms

- All-Inclusive Trust Deed (AITD): A form of seller financing in which the seller holds a trust deed that includes the original loan amount and any additional financing. The buyer makes payments to the seller, who continues to pay off the original mortgage.
- Nonrecourse: A loan that limits the lender's ability to pursue the borrower for any deficiency after foreclosure. In a non-recourse loan, the lender can only recover the property and not any other assets of the borrower.
- Portfolio Category Income: Income generated from interest on seller-financed loans, classified under the IRS as portfolio income. This income is taxed differently from active or passive income and may have different tax benefits for the seller.
- Private Mortgage Insurance (PMI): An insurance policy required by lenders when a buyer makes a down payment of less than 20%. PMI protects the lender if the borrower defaults. Unlike FHA's MIP, PMI can be canceled once the borrower reaches a certain equity level.
- Seller Financing: A financing arrangement where the seller acts as the lender, allowing the buyer to make payments directly to them instead of obtaining a traditional mortgage. This option is often used when buyers have difficulty securing conventional financing.

Slide 2: Carryback Financing Basics

- How It Works:
  - In carryback financing, the seller extends credit to the buyer by allowing the buyer to make payments over time rather than paying the full purchase price upfront. The seller takes on the role of the lender and holds a trust deed as security.
- All-Inclusive Trust Deed (AITD):
  - The seller includes the original loan amount in the trust deed, combining it with the additional amount financed by the buyer. The buyer makes payments to the seller, and the seller continues to pay off their existing mortgage.

Slide 3: Benefits and Risks of Seller Financing

- Seller Benefits:
  - Generates portfolio category income from the interest paid by the buyer.

  - May provide tax advantages by spreading out capital gains over time.
  - Helps sellers move a property quickly if buyers cannot obtain traditional financing.
- Buyer Benefits:
  - Allows buyers to purchase property when conventional financing is unavailable or unaffordable.
  - Flexibility in loan terms, including interest rates and payment schedules.
- Risks for Sellers:
  - Seller assumes the risk of buyer default.
  - Managing the financing process and ensuring timely payments can be challenging.

Slide 4: Legal Considerations in Seller Financing

- Nonrecourse Loans:
  - Sellers may offer nonrecourse loans, meaning they can only take back the property if the buyer defaults, without pursuing the buyer for additional compensation. This limits the seller's recourse but can make the financing more attractive to buyers.
- Private Mortgage Insurance (PMI):
  - In some cases, seller-financed transactions may require PMI if the buyer has a small down payment. PMI helps protect the seller if the buyer defaults, but it adds to the buyer’s monthly costs.

Student Exercise: Chapter 57: Carryback Financing in Lieu of Cash

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Carryback Financing
2. ______ Promissory Note
3. ______ Trust Deed

Definitions:

(A) Document outlining loan terms and borrower repayment obligations.

(B) Seller financing where the seller acts as the lender for part of the purchase price.

(C) Instrument securing repayment of a loan with the property as collateral.

Slide 2: Carryback Financing Considerations

True or False: _______________

1. Carryback financing can simplify transactions for buyers with limited access to traditional financing.

Answer Key: Chapter 57

Slide 1: Key Terms Matching

1. B
2. A
3. C

Slide 2: Carryback Financing Considerations

1. True

Chapter 58: Usury and the Private Lender

Slide 1: Key Terms

- Exempt Debt: Certain types of loans or debts that are not subject to state usury laws due to exemptions, such as loans made by licensed lenders, corporations, or certain government-backed loans.
- Excluded Debt: Specific types of debt that are not included when calculating whether a loan violates usury laws. For example, some fees or charges may be excluded from the interest rate calculation.
- Treble Damages: A legal penalty that allows for the recovery of three times the amount of damages. In cases of usury, the borrower may be entitled to treble damages if a lender is found to have charged an unlawfully high interest rate.

- Usury: The practice of charging interest on a loan at a rate that exceeds the maximum allowed by law. Usury laws set limits on interest rates to protect borrowers from excessively high charges.

Slide 2: Understanding Usury Laws

- Usury Laws:
    - These laws set a legal maximum interest rate that lenders can charge on loans. The specific limit varies by state and type of lender, but private lenders are generally subject to stricter limits compared to institutional lenders.
- Private Lender Restrictions:
    - Private individuals or unlicensed lenders must adhere to state usury laws, which often cap interest rates for personal loans. Failure to comply with these limits can result in significant penalties, including the return of excess interest and treble damages.

Slide 3: Exempt and Excluded Debts

- Exempt Debt:
    - Some types of loans, such as those made by financial institutions, corporations, or certain government-backed programs, are exempt from state usury laws, allowing them to charge higher interest rates than private lenders.
- Excluded Debt:
    - When determining whether a loan is usurious, certain charges, such as late fees or service charges, may be excluded from the calculation of the loan's effective interest rate.

Slide 4: Penalties for Usury Violations

- Treble Damages:
    - Borrowers who are charged usurious interest rates may be entitled to recover treble damages, which are three times the amount of the excess interest charged. This serves as a significant deterrent for lenders who might otherwise charge unlawfully high rates.

- Usury Laws and Borrower Protection:
    - Usury laws are designed to protect borrowers from predatory lending practices by capping interest rates and providing legal recourse in the event of violations. Lenders who violate usury laws may be required to return the excessive interest, face fines, or lose the right to collect on the loan.

Class Presentation: Chapter 59: A Lender's Oral Promises as Commitments

Slide 1: Key Terms

- Mortgage Commitment: A formal, written promise from a lender to a borrower that a mortgage loan will be provided under specific terms and conditions. This is a binding agreement that usually follows a loan application and approval process.

Slide 2: Legal Implications of Oral Promises

- Oral Commitments: Lenders may make verbal promises to borrowers regarding loan approval or terms, but these oral commitments are generally not legally binding. In most cases, only written agreements, such as a mortgage commitment, are enforceable in court.
- Risk to Borrowers: Borrowers who rely on a lender's oral promise risk facing a situation where the lender backs out or changes the terms of the loan. Without a written mortgage commitment, the borrower may have little recourse to enforce the promise.

Slide 3: Mortgage Commitment and Contract Law

- Written Mortgage Commitment:
    - A mortgage commitment outlines the terms under which the lender agrees to provide a loan, including the interest rate, loan amount, and repayment period. It is a formal contract that protects both parties by clearly stating the agreed-upon terms.
- Statute of Frauds:
    - The Statute of Frauds requires certain contracts, including those related to real estate and loans, to be in writing to be enforceable. Oral promises are generally not sufficient to create a binding loan agreement.

Slide 4: Best Practices for Borrowers and Lenders

- Get It in Writing:
  - Borrowers should always request a written mortgage commitment from the lender to ensure that the terms of the loan are legally enforceable. Relying on verbal promises is risky and can lead to misunderstandings or disputes.
- Lender Responsibilities:
  - Lenders should ensure that all loan terms are clearly communicated in writing to avoid disputes and to comply with legal requirements. Written commitments help protect lenders from potential claims of misrepresentation or breach of contract.

Student Exercise: Chapter 59: A Lender's Oral Promises as Commitments

1. Borrowers should request _______________ agreements to ensure clarity and enforceability.

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Oral Contract
2. ______ Written Commitment
3. ______ Estoppel

Definitions:

(A) A promise made verbally, which may be legally binding if acted upon.

(B) A written agreement outlining the terms and conditions of a loan.

(C) A legal principle preventing a party from denying their promise if the other party relied upon it to their detriment.

Slide 2: Legal Implications

True or False: ____________

1. Oral agreements are as enforceable as written contracts in all real estate transactions.

Answer Key: Chapter 59

Slide 1: Key Terms Matching

1. A
2. B
3. C

Slide 2: Legal Implications

1. False

Class Presentation: Chapter 60: Private Mortgage Insurance

Slide 1: Key Terms

- Lender-Paid Mortgage Insurance (LPMI):A form of mortgage insurance where the lender pays the PMI premium instead of the borrower. LPMI often results in a slightly higher interest rate, but the borrower avoids monthly PMI payments.
- Loan-to-Value Ratio (LTV):The ratio of the loan amount to the appraised value or purchase price of the property, whichever is lower. PMI is typically required for borrowers with an LTV above 80%, meaning they have less than a 20% down payment.
- Private Mortgage Insurance (PMI):Insurance required by lenders when a borrower makes a down payment of less than 20%. PMI protects the lender if the borrower defaults, and the cost is typically added to the monthly mortgage payment.

Slide 2: When PMI is Required

- Loan-to-Value Ratio (LTV):
  - Borrowers with an LTV higher than 80% are usually required to carry PMI. This means if the borrower is putting down less than 20% of the purchase price, PMI will be necessary to protect the lender in case of default.

- PMI Payments:
  - PMI payments are typically rolled into the borrower's monthly mortgage payment, but some lenders offer the option to pay upfront. Once the borrower's equity in the home reaches 20%, they can request PMI removal.

Slide 3: Lender-Paid Mortgage Insurance (LPMI)

- LPMI Features:
  - With LPMI, the lender covers the PMI cost, which allows the borrower to avoid monthly PMI payments. In exchange, the interest rate on the loan is slightly higher. LPMI is often a good option for borrowers who prefer to reduce their monthly payment.
- LPMI vs. PMI:
  - Borrowers should weigh the benefits of LPMI versus traditional PMI, as the higher interest rate with LPMI may cost more in the long run than monthly PMI payments that can be canceled when the borrower reaches 20% equity.

Slide 4: Removing PMI

- Automatic PMI Removal:
  - PMI is automatically canceled when the borrower's loan balance reaches 78% of the home's original value, as long as the borrower is current on payments. Borrowers can also request early removal once they reach 20% equity.
- Financial Considerations:
  - Although PMI increases the monthly mortgage payment, it enables buyers to purchase homes with a lower down payment. Borrowers should calculate the long-term cost of PMI or LPMI to determine which option suits their financial situation.

Chapter 60: Private Mortgage Insurance

Slide 1: Key Terms

Match the key terms with their definitions:

1. ______ Private Mortgage Insurance (PMI)
2. ______ Loan-to-Value Ratio (LTV)

3. ______ Mortgage Default

Definitions:

(A) Insurance that protects the lender from losses if the borrower fails to make payments.

(B) The percentage of a property's value financed by a loan.

(C) Failure to meet loan repayment terms, resulting in foreclosure risk.

Slide 2: PMI Requirements

True or False: _______________

1. PMI can be canceled once the loan-to-value ratio reaches 78% or lower, provided payments are current.

Answer Key: Chapter 60

Slide 1: Key Terms Matching

1. A
2. B
3. C

Slide 2: PMI Requirements

1. True

Class Presentation: Chapter 61: The Promissory Note

Slide 1: Key Terms

- Adjustable-Rate Mortgage (ARM): A mortgage with an interest rate that changes periodically based on an index. ARMs typically start with a lower initial rate, which adjusts after a set period, often leading to fluctuating monthly payments.
- All-Inclusive Trust Deed (AITD): A form of seller financing where the buyer makes payments to the seller, and the seller continues to pay off an existing mortgage. The AITD includes both the original loan and any additional financing extended by the seller.

- Applicable Federal Rate (AFR): The minimum interest rate set by the IRS for private loans. Loans below the AFR may trigger tax consequences, especially in seller financing or intra-family loans.
- Balloon Payment: A large, lump-sum payment due at the end of a loan term after a series of smaller periodic payments. Balloon payments are common in short-term or interest-only loans.
- Graduated Payment Mortgage (GPM): A mortgage with an initially low payment that increases over time. GPMs are designed to accommodate borrowers who expect their income to rise in the future, making it easier to manage early payments.
- Installment Note: A promissory note requiring regular payments of both principal and interest over a set period, commonly used in traditional fixed-rate mortgages.
- Promissory Note: A written promise by the borrower to repay a loan. The promissory note outlines the loan amount, interest rate, repayment schedule, and any penalties for default.
- Reconveyance: The process by which a lender transfers the title of a property back to the borrower after the loan has been paid off. This document proves that the mortgage or trust deed has been satisfied.
- Straight Note: A promissory note that requires the borrower to make interest-only payments during the loan term, with the full principal due at the end of the term.
- Usury: The practice of charging interest at a rate higher than the legal maximum. Usury laws set limits on the amount of interest that can be charged on loans, including promissory notes.

Slide 2: Types of Promissory Notes

- Installment Note:
    - An installment note requires the borrower to make regular payments of both principal and interest over a specified period. This is the most common type of promissory note used in fixed-rate mortgages.
- Straight Note:
    - A straight note is an interest-only loan in which the borrower makes periodic interest payments but repays the entire principal in one lump sum at the end of the loan term.
- Balloon Payment Note:

- This type of note requires smaller payments for a set period, with a large balloon payment due at the end of the term. Balloon payment loans are often used in commercial real estate and short-term financing.

Slide 3: Adjustable-Rate and Graduated Payment Mortgages

- Adjustable-Rate Mortgage (ARM):
    - ARMs typically offer lower initial interest rates, but the rate can fluctuate based on the market index. Borrowers may face significantly higher payments after the initial fixed period expires, depending on market conditions.
- Graduated Payment Mortgage (GPM):
    - A GPM allows for lower initial payments that increase over time. This structure benefits borrowers expecting future income growth but can lead to negative amortization if early payments don't cover accrued interest.

Slide 4: Legal Considerations and Reconveyance

- Promissory Note Requirements:
    - The promissory note must clearly state the loan terms, including the interest rate, repayment schedule, and penalties for late payments or default. The note is a binding legal document between the borrower and lender.
- Reconveyance:
    - Once the borrower repays the loan in full, the lender issues a reconveyance deed, releasing the lender's interest in the property and clearing the borrower's title. It is essential to ensure that the reconveyance is properly recorded.

Chapter 61: The Promissory Note

Slide 1: Key Terms

Match the key terms with their definitions:

1. _______ Promissory Note
2. _______ Maker
3. _______ Interest Rate

Definitions:

(A) The individual or entity responsible for repaying the loan as outlined in the note.

(B) A document evidencing the borrower's obligation to repay the loan under specific terms.

(C) The percentage charged on the loan amount as compensation for borrowing.

Slide 2: Legal Considerations

True or False: _______________

1. A promissory note must always be secured by collateral, such as real estate, to be enforceable.

Answer Key: Chapter 61

Slide 1: Key Terms Matching

1. B
2. A
3. C

Slide 2: Legal Considerations

1. False

