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**PRACTICE
QUESTIONS**



Course 2

**RESIDENTIAL
REAL ESTATE TRANSACTIONS**

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RESIDENTIAL REAL ESTATE TRANSACTIONS

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MiniCram® Real Estate Exam Practice Questions

Course 2 – Residential Real Estate Transactions

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INTRODUCTION

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Congratulations on purchasing our **MiniCram®** for Ontario Real Estate License Exam preparation. The purpose of this book is to provide you with last minute review of important theory and math concepts for the exam. **MiniCram®** has compiled this booklet so that you can focus on key areas of study as well as prepare to overcome the most common mistakes that students make on the actual test day.

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This book is written by a practicing Real Estate Broker who is also a trained adult trainer. If you have feedback for the author, need more information, or have general comments, please send an email to minicram@outlook.com.

We hope you enjoy your review. Good luck for the exam!

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1. AGENCY AND REPRESENTATION

Take a blank sheet of paper to write your answers. The [Quick Answer Key](#) is located after the last question followed by [Detailed Answers](#).

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M1.1. From a legal perspective, a person whom an agent represents is known as the:

- A. Buyer.
- B. Principal.
- C. Client.
- D. Seller.

M1.2. Which of the following statement is NOT correct under the common law of agency?

- A. An agency relationship is created when two persons agree that one will act on behalf of the other.
- B. An agent who would not have capacity to enter a contract himself may be able to make a valid contract on her principal's behalf.
- C. Where the agent does not disclose that she is an agent and enters into a contract with a third party the principal can have no liability for the contract.
- D. An agency agreement may be either written, oral, or implied.

M1.3. Which of the following events will NOT terminate an agency relationship?

- A. Revocation.
- B. Frustration.
- C. Performance.
- D. Suspension.

M1.4. Which of the following situations best describes a sub-agency?

- A. When one brokerage is working with another brokerage to help the client and owes same duties to the client as the primary brokerage.
- B. When a brokerage is co-operating with another brokerage and protecting the interests of its own client.
- C. When a primary brokerage works with another brokerage to help the client without the knowledge or consent of the client.
- D. When a brokerage provides referrals to another brokerage to help a client locate a suitable property.

M1.5. The term 'Agent' under the common Law of Agency:

- A. Refers to all salespersons and brokers employed by a real estate brokerage in Ontario.
- B. Refers to a brokerage involved in sale/purchase of properties but not for leasing.
- C. Does not have any equivalent term in the Real Estate and Business Brokers Act.
- D. Refers to a real estate brokerage involved in real estate trading and representing a client.

M1.6. An agent's authority can be created retroactively by his principal by an action called:

- A. Rectification.
- B. Ratification.
- C. Rescission.
- D. Revocation.

M1.7. Which of the following statements respecting a real estate agency relationship is TRUE?

- A. The interests of the agent take priority over those of the principal.
- B. The buyer of the property is always owed the agent's primary duty to act solely for his or her benefit.
- C. The agent must place the interests of the client above all, except law.
- D. The agent is an employee and works under the direct control and supervision of his or her principal.

M1.8. Where a principal accepts a contract that the agent entered into without any authority:

- A. The third party is not obligated to honour the contract.
- B. The agent cannot be given authority after the fact.
- C. The agent is given authority retroactively to enter into that contract.
- D. The principal can sue the agent for breach of implied authority.

M1.9. Salesperson Sandy shows a property to her buyer client. The property is not listed with any brokerage, but the seller agrees to show the property and pay remuneration if sold. The showing leads to an offer which is accepted by the seller. In this case:

- A. Sandy has created an agency relationship with the seller, but her brokerage is not bound by it.
- B. An agency relationship has been created by ratification.
- C. An agency relationship has been created by operation of law.
- D. An agency relationship has been created by implied authority.

M1.10. In which of the following ways would an agency relationship NOT be terminated?

- A. By an act of a third party inconsistent with the continuation of authority.
- B. By the death of one of the parties to the agency agreement.
- C. By the legal doctrine of frustration.
- D. By the letter of termination by the principal provided to the agent.

M1.11. Consider a situation in which the principal is the seller, and the agent is the listing brokerage. Which of the following events will terminate the agency relationship?

- A. The principal's refusal to accept an offer presented by the agent where the offer exactly complies with the requirements in the listing agreement.
- B. An act of the principal that exceeds the authority granted to the agent.
- C. An offer by the agent to personally purchase the principal's property.
- D. The revocation of an offer to purchase by the offeror before the principal can accept it.

M1.12. An agent owes a duty to the principal not to make a secret profit. This means that an agent must keep the principal fully informed about:

- A. All of the agent's personal business dealings.
- B. The agent's annual tax return.
- C. Actual and/or expected benefits accruing to the agent in a transaction.
- D. Only the actual profits received by the agent.

M1.13. Which of the following is a correct statement regarding the duty of *indemnification* under the *Agency Law*, as it applies to real estate trading?

- A. The client must indemnify the agent under all circumstances.
- B. The client must indemnify the agent for liabilities incurred when the agent is carrying out its duties in a lawful manner.
- C. The client must compensate the agent for all expenses incurred when carrying out its duties.
- D. The client indemnifies the agent even when the agent is working in excess of the granted authority.

M1.14. Salesperson Kim of Cram Realty Inc. has an express authority from her friend Lisa to find a buyer for her apartment. However, in her capacity as Lisa's agent, Kim herself accepts an offer to purchase the apartment instead. When Lisa discovers the incident, she is really impressed by the offered price and other terms of the offer. She calls and tells the buyers that the salesperson's action is acceptable to her. Which of the following is the result of these actions at law?

- A. Lisa has ratified Kim's actions, and she cannot be held liable for breach of authority.
- B. When Lisa accepted Kim's act, she created legal authority by means of revocation.
- C. Lisa did not need to accept Kim's action because she had an apparent authority.
- D. The common law of agency does not apply in the given situation.

M1.15. Salesperson Jenny of Cram Realty Inc. sold one of her listings, 37 Square Street to a buyer who had signed a *Buyer Customer Service Agreement* with her brokerage. According to the provisions of the *Agency Law*, what was the role of Cram Realty Inc. in this transaction?

- A. Cram Realty Inc. was acting in a multiple representation capacity.
- B. Cram Realty Inc. was both a listing brokerage and a co-operating brokerage.
- C. Cram Realty Inc. was the listing brokerage acting in the capacity of single seller representation.
- D. Cram Realty Inc. was acting in a buyer brokerage capacity.

M1.16. Investor Ingrid is interested to make an offer on a commercial property listed by salesperson Jenny of Cram Realty Inc. Salesperson Skinny of the same brokerage has signed a *Buyer Customer Service Agreement* with Ingrid. When inspecting the property, salesperson Skinny observes that there are certain electrical deficiencies in the building, and it would be difficult for buyer to obtain fire insurance. Skinny does not inform the buyer as she is keen to close the deal as quickly as possible. The buyer makes an offer, and it is accepted by the sellers. Which of the following statements is correct with respect to legal obligations of the salespersons?

- A. Salesperson Skinny has fulfilled her duty of confidentiality to the seller client of her brokerage by not disclosing the facts about the property.
- B. The buyer is a customer and none of the salespersons is required to disclose material facts to the buyer.
- C. Only salesperson Jenny would be held responsible because it was her duty to disclose this fact in the listing.
- D. The duty to disclose material facts about the property applies to clients as well as customers and both salespersons may be held liable.

M1.17. Which of the following statements best describes the concept of *Agency*?

- A. An agent is a representative who is expected to have greater expertise than the principal for the task to be performed.
- B. An agent is a representative and the brokerage who owe fiduciary duty to the clients.
- C. An agent is an independent contractor who operates without any controls or guidance by the principal.
- D. An agent is a real estate salesperson who is representing a principal brokerage.

M1.18. An agent's duties can be delegated to others under certain circumstances. With respect to a real estate brokerage in Ontario, which of the following statements best describes the delegation of the agent's duties?

- A. The listing salesperson is not qualified to sell the property and therefore lists the property on the local listing service.
- B. The listing salesperson's fiduciary duties are delegated to the brokerage by the salesperson.
- C. The listing brokerage's duties are delegated to the co-operating brokerage when the co-operating brokerage represents a buyer who submits an offer.
- D. The listing brokerage makes an offer of sub-agency to other brokerages who may be working for the buyer.

M1.19. Developer Don wants to work with only one brokerage to market homes in his new subdivisions located in several towns. He contacts Cram Realty Inc. due to its good track record of providing best services in the recent years. Cram Realty Inc. does not have branch offices in other towns and developer Don has given his written consent to Cram Realty Inc. for working with other local brokerages. However, Don is concerned that the local brokerages must owe him same fiduciary duties as owed by Cram Realty Inc. Which of the following is a correct statement for the agency relationships in the given situation?

- A. Cram Realty Inc. is the agent of the developer and local brokerages will be acting in sub-agency capacity.
- B. Cram Realty Inc. is the listing brokerage, and the local brokerages will be treated as co-operating brokerages.
- C. The given situation clearly points out that it is a concurrent representation by the local brokerages.
- D. Cram Realty Inc. would be treated as principal brokerage while the local brokerages would be treated as subsidiary brokerages.

M1.20. Which of the following examples does NOT show that a salesperson is complying with the duty of care owed to both clients and customers of the brokerage?

- A. The salesperson advises a buyer client that they should get home inspection done even though the home they are buying is fairly new.
- B. The salesperson asks the seller several questions regarding the property he is listing.
- C. A salesperson makes further enquiries to verify the information provided by the seller client.
- D. A salesperson provides information to a customer based only on his personal knowledge.

M1.21. The term '*representation*', under the Real Estate and Business Brokers Act (REBBA), may be encountered in various forms in real estate trading. Which of the following statements is NOT correct about different types of representation?

- A. Concurrent representation occurs when the same brokerage represents more than one buyer or seller for different transactions.
- B. Multiple representation occurs only when a brokerage represents both the buyer and the seller in the same transaction.
- C. Single representation may refer to a situation when the same brokerage is working with the seller as a client and buyer as a customer for the same trade.
- D. Sequential representation occurs when a single client works with the same brokerage, first for selling and then, for buying another property.

M1.22. Which of the following statements is correct when a buyer or seller contacts a registrant in order to have an agency relationship?

- A. The registrant should provide information regarding service alternatives to the party and ask them to become clients of the brokerage.
- B. The registrant should simply ask the party to sign a representation agreement with the brokerage without distracting them with any information about agency.
- C. The registrant should provide information regarding service alternatives and ask them whether they would like to work as clients or customers.
- D. The registrant should simply ask the party to become customers of the brokerage to reduce its liability.

M1.23. As per the REBBA Code of Ethics, the duty of care is owed to both clients and customers. Which of the following statements correctly explains this duty?

- A. The duty of care relates only to performing the agreed functions with due care and skill but does not expect the brokerage or its employees to have competence.
- B. The brokerage and all its employees must perform the agreed functions with reasonable care, skill, judgment, and competence.
- C. The duty of care essentially includes the duty of the agent to obey all lawful instructions of the client.
- D. Keeping the personal or motivational information of the client confidential is included in the duty of care.

M1.24. Salesperson Kim of Cram Reality Inc. listed a property at 123 Cram Crescent. Another salesperson from the same brokerage submits an offer for the property from a buyer who is a customer of the brokerage. Is this a multiple representation situation and why?

- A. No, because the buyer and the seller are using different salespersons.
- B. Yes, because both have signed written agreements with the same brokerage.
- C. No, because the brokerage is representing the seller but not the buyer.
- D. Yes, because the brokerage owes fiduciary duties to both the seller and the buyer.

M1.25. Which of the following is a correct statement regarding duties of a client under the *Agency Law*?

- A. The client must compensate the brokerage for all expenses incurred when performing its duties.
- B. The duty of remuneration refers to the duty of the client to pay remuneration for the services provided.
- C. The duty of indemnification applies only to the brokerage and not to the client.
- D. The duty of disclosing facts about the transaction is for the agent and not for the client.

M1.26. According to the *Agency Law*, the agent owes its clients certain fiduciary obligations, including the duty of accounting. Which of the following statements best describes this obligation?

- A. The agent must safeguard and be accountable for all monies, documents, and properties being held or managed on behalf of the principal.
- B. The agent must keep complete records of all monies that will be claimed as an income or expense.
- C. The agent must account for all the time spent in promoting the client best interests.
- D. The agent must be qualified in accounting and financial matters to provide advice to the principal.

M1.27. Salesperson Jenny of Cram Realty Inc. has sold a property at 120 High Street, which was listed by Square Real Estate Ltd. She referred her buyer client to Cram City Financials Inc. for arranging a mortgage loan. Cram City Financials Inc. will be paying a referral fee to Jenny's real estate brokerage. According to REBBA, what is salesperson Jenny's legal obligation concerning the referral fee?

- A. Written disclosure of the referral fee must be given to both the seller and the buyer at the earliest practical opportunity.
- B. If Jenny has given conscientious and competent service to the buyer client, no disclosure of the referral fee is required.
- C. Jenny must disclose the referral fee to the buyer client in writing at the earliest practicable opportunity.
- D. Prior to receiving any referrals, Jenny must inform both the listing brokerage and selling brokerage in writing.

M1.28. Which of the following is a requirement under REBBA before a brokerage enters into a representation agreement or a customer service agreement with a party?

- A. The brokerage must ask the party to become a client of the brokerage for providing better services.
- B. The brokerage must provide information about agency relationships and service alternatives and get a signed acknowledgement.

- C. The brokerage must ask a party to become a customer when the other party is already a client.
- D. The brokerage must explain the contents of a representation agreement before asking the party to sign.

M1.29. *REBBA Code of Ethics* requires that a registrant must provide a party (seller or buyer) with certain information before they are asked to sign a representation agreement or a service agreement with the brokerage. Which of the following information need NOT be provided to a buyer?

- A. The type of service alternatives and nature of services available with the brokerage. i.e., client or customer.
- B. The nature of services that the brokerage would provide to a client or to a customer.
- C. If the brokerage were to represent two clients in the same trade, the nature of restricted services it would provide to each client.
- D. The number of years the real estate brokerage has been registered with RECO.

M1.30. A newly registered salesperson is working with a friend who wishes to purchase a cottage. During their discussions, the friend asks the salesperson for his advice on such properties. The salesperson does not have adequate knowledge about cottages, water wells or septic tanks. According to *REBBA Code of Ethics*, which of the following activities would be acceptable on part of the salesperson?

- A. The salesperson should provide his best advice but should not induce his friend into signing a Buyer Representation Agreement.
- B. The salesperson should provide his best advice and only explain the benefits of a Buyer Representation Agreement.
- C. The salesperson should not provide any advice but should ask his friend to seek expert advice from someone who has better knowledge and experience in such properties.
- D. The salesperson should not provide any advice but should require the buyer to sign a Buyer Representation Agreement before showing cottage properties.

M1.31. Which of the following obligations under *REBBA Code of Ethics* does not apply to customers of a brokerage?

- A. Full disclosure of material facts of the property.
- B. Keeping personal or motivational information confidential.
- C. Disclosure of agency relationships.
- D. Providing competent and conscientious service.

M1.32. Agents owe their clients fiduciary duties, including the duty of *loyalty*. Which of the following statements correctly describes this duty?

- A. All facts known to the agent pertaining to the property and transaction must be disclosed to all parties.
- B. If the principal's interest conflicts with the interests of the agent, the agency relationship is terminated.
- C. The agent owes the duty of loyalty to clients as well as customers, who use the services of the agent to make an offer.

- D. The agent must place the principal's interests ahead of the interest of the agent and the interest of third parties.

M1.33. Salesperson Kim of Cram Realty Inc. is representing a buyer client. She comes across a property which is being sold privately by the owner. The buyer likes the property and submits an offer. When the offer is presented to the seller, he wants some assistance from salesperson Kim with respect to making a counteroffer and understanding certain pre-printed clauses of the *Agreement of Purchase and Sale*. Kim helps the seller in understanding the agreement in the most competent manner. Based on this information, which of the following statements is correct?

- A. Salesperson Kim has established a sub-agency relationship with the seller.
- B. Cram Realty Inc. has client relationship with the buyer and has created a customer relationship with the seller.
- C. Salesperson Kim may have created an implied agency relationship with the seller.
- D. A limited dual agency has been created as a result of salesperson Kim's actions.

M1.34. The *Real Estate and Business Brokers Act (REBBA)* contains several statutory requirements that originally developed many years ago as common law duties of agents and principals. From the statements given below, select the statement which is NOT correct in this regard.

- A. The requirements for maintaining a Real Estate Trust Account relate to the agent's fiduciary duty of accounting.
- B. The requirements for salespeople and brokers to complete an education program to qualify for registration relate to the fiduciary duty of competence.
- C. The payment of remuneration to brokerages as described in the Act is based on the client's duty of indemnification.
- D. The requirements for representation agreements relate to common law obligations for having definite terms of the contract.

M1.35. When an agency relationship is created, the principal owes the agent certain duties. Which of the following statements best describes these duties?

- A. The principal must act in good faith and fully disclose all information pertaining to the transaction to the agent.
- B. The principal must act with loyalty and in good faith and protect the interests of the agent.
- C. The principal owes the duty of indemnification which means that the principal must pay the agent for the services rendered.
- D. The principal must take responsibility for the lawful acts done by the agent on behalf of the principal and pay the agent for the services provided.

M1.36. The *Real Estate and Business Brokers Act* contains specific requirements when a registrant makes certain promises as an inducement for someone to enter into a real estate agreement. Which of the following statements is correct in this regard?

- A. This section of the Act applies to promises to clients but not to customers.
- B. All promises to clients and customers must be put in writing and retained by the brokerage.

- C. The promise must be put in writing and delivered to the person to whom the promise is made.
- D. This section of the Act would apply to a promise to pay the seller's closing expenses.

M1.37. A mortgage lender paid an amount equal to 1% of purchase price to the buyer's brokerage as a referral fee. This must be disclosed to:

- A. The seller of the property.
- B. The buyer of the property.
- C. Both the buyer and the seller.
- D. The Real Estate Council of Ontario.

M1.38. Salesperson Ben met one of his old friends while buying shoes in a shopping centre. The friend told Ben that he had just listed his property with a different brokerage. Ben told his friend that he is also in real estate business and would like to sell his property. Ben further advised his friend on how he could terminate his listing with the other brokerage and then list with him. What violation of regulatory obligations under *REBBA* has occurred in this situation?

- A. Dealing with Other Registrants.
- B. Error, Misrepresentation and Fraud.
- C. Services from Others.
- D. Providing Opinions/Advice.

M1.39. Salesperson Jenny of Cram Realty Inc. obtains a listing from seller Shiney. Jenny's sister got interested in the property and submits an offer to the seller through Jenny. The sellers accepted the offer but in the rush of events, Jenny did not inform the sellers that the buyer was her sister. Jenny's sister resold the property 2 weeks after the closing and made a huge profit on the sale. Based on this information, salesperson Jenny breached her fiduciary duty related to:

- A. Good faith and full disclosure.
- B. Indemnification.
- C. Competence.
- D. Confidentiality.

M1.40. In an agency relationship, the client has certain duties towards the agent. Which of the following is a correct statement regarding the duty of *Indemnification*?

- A. The client must compensate or indemnify the agent under all circumstances.
- B. The client must indemnify the agent when the agent is carrying out its duties in a lawful manner.
- C. The client must compensate the agent for all expenses incurred when carrying out agency duties.
- D. The client must compensate the agent when the agent is working in excess of the authority granted.

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DETAILED ANSWERS

Module 1. Agency and Representation

M1.1. Answer B.

Under the common law of contract, the party which is represented by the agent is known as the *principal*. In other words, a principal is the person for whom an agent has contracted to act for, and for whose benefit the agent is required to perform certain duties.

A buyer or a seller may not necessarily be the principal under the common law. Anyone who is actually represented by the agent is known as the principal. A client refers to a party which signs an agreement with a real estate brokerage and that party may be a seller client or a buyer client. The agency agreement creates a fiduciary relationship between the brokerage and the seller or buyer client.

M1.2. Answer C.

Even if an agent enters into a contract with a third party without a proper disclosure by the agent, the principal's liability under the agency agreement still exists. The agent would be separately liable for not making the required disclosure.

All other options are true. Typically, an agency relationship is created when two persons agree that one (the agent) will act on behalf of the other (the principal). Because an agent is not a party to a contract between the client and a third party, he or she may still have the limited capacity to make a valid contract on principal behalf of the principal. An agency agreement can be created either in writing, orally, or it may be implied.

M1.3. Answer D.

Suspension of an agency relationship does not terminate the agency agreement. It just puts the relationship on hold for a specific time period.

All other events will lead to termination of an agency relationship. An agency relationship can be terminated by a principal when he or she revokes the authority granted to the agent. It can also be terminated due to frustration. *Frustration*, in real estate, refers to a situation where the property is significantly damaged to such an extent that it cannot be sold, and both parties are aware of the situation. *Performance* refers to fulfilment of duties under the contract, which in effect, terminates the agency agreement.

M1.4. Answer A.

The term *sub-agency* refers to a situation where a primary brokerage hires another brokerage to help the client in a real estate transaction with the consent of the client. In this situation both brokerages owe similar duties to the client.

When a brokerage co-operates with another brokerage and protects the interests of its own client, it is referred to as co-operating brokerage. *Sub-agency* must have the consent of the client. Just providing referrals to another brokerage does not create a *sub-agency* situation.

M1.5. Answer D.

The term *Agent* under the common law of agency refers to the real estate brokerage involved in real estate trading and representing a client.

Other statements are incorrect because the term *agent* does not refer to salespersons and brokers employed by a brokerage. The brokerage, as an *agent*, is involved in sale/purchase, leasing, or any other type of real estate transaction on behalf of its client.

M1.6. Answer B.

If a principal accepts the benefit of an unauthorized act of the agent, it is considered that he or she retroactively granted authority to the agent. In other words, if a contract, which is outside the authority of the agent, is accepted by a principal, an agency is created by ratification.

Rectification, rescission, and revocation are not related to creation of an agency relationship. *Rectification* refers to making certain corrections to a document. *Rescission* refers to setting aside or cancelling an agreement. *Revocation* refers to withdrawal of an authority granted to an agent.

M1.7. Answer C.

Under the common law of agency, the agent must place the interests of his client above all, *except law*. This is one of the fiduciary duties of the agent to the principal.

It is the *principal* whose interests take priority over those of the agent. The buyer of the property is not 'always' owed the agent's primary duty to act solely for his or her benefit. Instead, the agent owes his or her primary duty to the party (the seller or the buyer) with whom the agent has an agency relationship. An '*agent*' does not act as an employee of the principal but as an employee of his or her real estate brokerage and works under the supervision and control of the broker of record.

M1.8. Answer C.

If a principal accepts a contract that the agent entered into without authority, it is considered that he or she has retroactively granted authority to the agent. In other words, if a contract, which is outside the authority of the agent, is accepted by a principal, an agency is created by *ratification*.

The contract created by the agent is between the principal and the third party and the third party is obligated to honour that contract. It is incorrect that the agent cannot be given an authority after the fact. The principal cannot sue the agent in the given situation for a breach of authority because he has accepted the benefit of the contract. A *implied authority* refers to a situation where an agent gives the impression that he is an agent for a principal while, in fact, no such relationship exists.

M1.9. Answer B.

Agency by *ratification* refers to a situation when a party accepts the benefit of an unauthorized act of the agent. In the given scenario, the seller did not specifically grant representation authority but agreed to pay remuneration if the showing resulted in a sale. Hence, the seller accepted the offer from the buyer, which was a direct benefit arising out of the salesperson's actions.

The salesperson *did* create an agency relationship with the seller and the brokerage is bound by the terms of the agreement because the salesperson is an employee of the brokerage. Agency relationship is neither implied in this case nor it is created by operation of law.

M1.10. Answer A.

An agency agreement with a principal is not terminated by an act of a third party, even if the act is inconsistent with the continuation of authority. The agency agreement is between the principal and the listing brokerage, and the third party is not a *privy* to this contract. Hence, a third party's act does not terminate the agency agreement between a principal and an agent.

An agency agreement would be terminated by death of one of the parties, either the principal or the agent; by the legal doctrine of *frustration*; and by the letter of termination by the principal provided to the agent. All these reasons are valid for effectively terminating the agency relationship.

M1.11. Answer B.

The relationship between an agent (the registrant) and the principal (the seller) depends on their mutual consent and either party has the right to terminate this relationship at will. In a situation where an act of the principal exceeds the authority granted to the agent and is inconsistent with the continuation of the agent's authority would result in termination of the agency relationship.

Other examples given here do not terminate the agency relationship. The principal has the right to refuse any offer, which is unacceptable to him or her. The agent is permitted to make an offer on the principal's (the seller's) property, provided a disclosure is made to the seller. Further, if an offer is revoked by the offeror before it is accepted by the principal, the agency relationship is not affected.

M1.12. Answer C.

An agent must keep the principal fully informed about all of the actual and prospective benefits accruing to the agent in a transaction. Non-disclosure of these benefits to the client would result in the agent making a secret profit. This would be a violation of agent's fiduciary duty of loyalty to the principal.

Secret profit refers to non-disclosure of the benefits that arise out of the agency relationship with the principal and not due to agent's personal business dealings. Agent's annual tax return is irrelevant in this case and has nothing to do with the disclosure requirements. The agent must not only disclose the actual profits received by the agent but must disclose all the prospective benefits accruing in a transaction.

M1.13. Answer B.

Under the *Agency Law*, the client has a duty to indemnify the agent (hold the agent harmless) when the agent is working lawfully and within the authority granted to provide services to the client.

This means that if the client suffers a loss during the agreement period, but the loss is not due to any negligence of duties by the agent, the client will not hold the agent liable for the loss. It is incorrect that the client *must* indemnify the agent under *all* circumstances. If the agent is working in excess of the authority granted or is in breach of its duty, the client is not obligated to indemnify the agent.

M1.14. Answer A.

The given scenario describes a situation where an agent works either without authority or in excess of authority. An agent does not have the authority to accept or reject an offer from a buyer. In case the agent does so and the client later accepts the agent's unauthorized act, the

client *ratifies* agent's actions. In the given situation, Lisa has retroactively ratified Kim's actions and she cannot be held liable for breach of authority.

Revocation refers to withdrawal of authority or offer and therefore, Kim's action did not create a legal authority. An *apparent authority* results from legal doctrine of *estoppel* surrounding the transaction, which is not the case in the given scenario.

M1.15. Answer C.

Cram Realty Inc. had a listing agreement with the seller, it was representing the seller and was acting in a single representation capacity. A Listing Agreement creates an agency relationship with the seller.

This is not a multiple representation situation because the buyer is not represented by the brokerage. A Buyer Customer Service Agreement does not create a representation relationship. Customer Service Agreements create a *non-agency* relationship. The terms '*co-operating brokerage*' and '*buyer brokerage*' are typically used when a brokerage is representing the buyer.

M1.16. Answer D.

The duty to determine and disclose material facts about the property applies to both clients and customers of the brokerage. The salespersons must have disclosed to the buyer that the property has certain electrical deficiencies and obtaining fire insurance would prove to be expensive. Skinny was more interested in making a deal and protect her own interests.

The duty of confidentiality is for safeguarding personal or motivational information, which is not relevant in this scenario.

M1.17. Answer B.

Under the Agency Law, an *agent* is that person or entity which owes *fiduciary duties* to the client. Under the Real Estate and Business Brokers Act, the term *agency* has been replaced with *representation*.

An agent is someone acting on behalf of another (*principal/client*) and may not have greater expertise than the principal for the specified task. An agent does not necessarily have to be an *independent contractor* or a real estate salesperson representing his/her brokerage.

M1.18. Answer C.

In the standard *Listing Agreement*, the seller permits the listing brokerage to co-operate with other registered real estate brokerages to find a buyer and sell the property. This typically happens when the property is listed on the local listing service. This is an example of delegation of duties by the brokerage with prior consent of the client.

The agent of the seller is not the salesperson but the listing brokerage, which delegates its agency duties to its employees. As such, the salesperson does not delegate his/her duties to the brokerage, but it is the other way around. Delegation is not permitted when the agent does not have the necessary skills or capabilities to perform a specific task. A co-operating brokerage is not treated as a sub-agent of the listing brokerage.

M1.19. Answer A.

Sub-agency is created when a primary brokerage hires other brokerages with the consent of the client. The given situation clearly indicates creation of a *sub-agency* relationship. The developer

has hired Cram Realty Inc., which has hired local brokerages as sub-agents with the consent of the developer. The sub-agents will also owe the developer same duties as the primary brokerage.

The local brokerages will not be treated as co-operating brokerages because a co-operating brokerage would owe duties to their own buyer clients and not to the developer. The term *concurrent representation* does not apply to the given situation. There is no such term as subsidiary brokerage.

M1.20. Answer D.

Salespersons must verify facts before providing any information to clients and customers. Due diligence is expected from all registrants when buyers and sellers ask for information.

Other statements are some examples indicating that a salesperson is complying with his duty of care.

M1.21. Answer B.

Multiple representation does not occur *only* when both the buyer and the seller are represented by the same brokerage. It may also occur when a brokerage is representing more than one buyer client, who are making an offer for the same property. The property may have been listed by a different brokerage.

M1.22. Answer C.

REBBA Code of Ethics requires that the brokerage must provide certain information to a buyer or seller prospect before entering into a representation relationship. This includes information regarding service alternatives available with the brokerage, client and customer relationships, explanation of multiple representation, and their disclosure obligations. This information must be provided at the first point of contact or at the earliest practical opportunity but before an offer of representation is presented. The prospect must be given an option to choose the type of service they would like from the brokerage.

M1.23. Answer B.

As a general rule, the duty of care includes reasonable care and skills, reasonable judgment, and use of competence in performing the agreed functions. However, if there is a dispute, the objective standard of *duty of care* is established in court and is based on circumstances.

The duty of honesty is typically related to the duty of loyalty to the client. The duty of *confidentiality* related to safeguarding personal and motivational information of the client and is not the same as the duty of care.

M1.24. Answer C.

No, it is not a multiple representation situation because only the seller is represented and is a *client* of the brokerage. The buyer is a *customer* and is not represented. Multiple representation would have occurred if both the seller and the buyer were clients of the same brokerage. The given situation is known as a *single representation*. Fiduciary duties under the agency law are owned only to the clients of the brokerage.

M1.25. Answer B.

The duty of *remuneration* under Agency Law refers to payment for the services rendered. In real estate, it is equivalent to payment of remuneration by the client to a real estate brokerage.

The client is not required to compensate the brokerage for expenses incurred on behalf of the client, unless specifically agreed. The duty of *indemnification* and the duty to disclose material facts about the transaction apply to both the agent and as well as the client.

M1.26. Answer A.

The fiduciary duty of *accounting* is not merely related to financial accounting. This duty includes obligations of the agent (brokerage) to be responsible and accountable for all monies, documents, and properties, which are held or managed by the brokerage on behalf of the client.

M1.27. Answer C.

A written disclosure of any referral fee must be made to the buyer client at the earliest practical opportunity. Otherwise, it would become a secret profit, which is prohibited under the Code of Ethics.

Just providing competent service to a client does not fulfill the obligation of disclosing referral fees. The salesperson is required to disclose the referral fees to the buyer client and not to the brokerages.

M1.28. Answer B.

REBBA requires brokerages to provide written explanation of agency relationships and service alternatives available with the brokerage to a consumer and get a written acknowledgement to this effect. The party is then free to choose the type of service they want to obtain from the brokerage.

The brokerage cannot *require* a consumer to become a client or a customer regardless of an earlier relationship with another party to the transaction. The brokerage must explain to a consumer both the types of agency relationships and service alternatives available to the consumer.

M1.29. Answer D.

The brokerage is not required to inform or disclose how many years it has been registered with the Real Estate Council of Ontario (RECO).

The brokerage must inform the party (buyer or seller) about different service alternatives and get an acknowledgement that the party has received this information. The party then must be given an option to choose how they would like to work with the brokerage.

M1.30. Answer C.

REBBA Code of Ethics makes it clear that when a registrant does not have sufficient knowledge, skills, or competence in a matter, he should not provide expert advice on that matter. The registrant should encourage the client to seek advice from other better qualified persons or third-party professionals.

M1.31. Answer B.

The fiduciary duty of *confidentiality* refers to safeguarding personal and motivational information of the *clients*. This duty does not apply to *customers* of the brokerage. The duty to customers is limited to providing information, fairness, integrity, honesty, and no misrepresentation.

M1.32. Answer D.

The duty of *loyalty* means that the interests of the client must be protected and kept ahead of agent's own interests and the interests of third parties. This is one of the *fiduciary duties* owed to a client under the Agency Law.

The duty to disclose material facts pertaining to the property and the transaction falls under the duty of *full disclosure*. The agency relationship is not terminated if the interests of the agent conflict with the interests of the client, provided that the disclosure with respect to conflict of interest is made. The duty of *loyalty* is not owed to customers, which is a non-agency relationship.

M1.33. Answer C.

Implied agency may be created when a buyer or seller *believes* that an agent is working for him/her in a transaction. Based on her actions, the salesperson may have created an implied agency with the seller. This is because the salesperson provided competent service, gave advice to the seller on the offer, and helped him with the counteroffer. The seller might have believed that the salesperson is working as his agent.

The scenario does not point to creation of sub-agency or a customer service relationship. *Dual agency* is also not created because the salesperson and the seller did not formally enter into an agency relationship. Under REBBA, a *Dual agency* is known as *Multiple Representation*.

M1.34. Answer C.

The duty of *indemnification* (payment of remuneration to the brokerage) specifically does not apply in real estate because the client owes the duty of *remuneration*, which is set out as remuneration in representation agreements.

Other statements are correct. REBBA includes many obligations that are related to duties of *accounting*, *competence*, *indemnification*, etc. Maintaining a *Real Estate Trust Account* is a part of the duty of *accounting*. Educational requirements are a part of the *duty of competence* because the agent must have the required education, knowledge, and skills to provide services. The requirements to have representation agreements relates to the common law principles of having definite terms for creating a legally binding contract.

M1.35. Answer D.

The principal must take responsibility of the lawful acts of the agent and pay the agent for the services provided. This is one of the fiduciary duties *owed to the agent* by the principal under the Agency Law.

The duty to act in good faith and disclose all information applies equally to both the principal and the agent. The duty of loyalty and protecting the best interests are owed by the agent to the principal. The duty to reimburse for services provided falls under the duty of *remuneration* and not under *indemnification*.

M1.36. Answer C.

REBBA *Code of Ethics* requires that when a registrant makes a promise to a party as an inducement to enter into an agreement, the promise must be in writing and be delivered to the party to whom it is made. This requirement applies to both clients and customers of the brokerage.

M1.37. Answer B.

Referral fees received by a registrant must be fully disclosed to the client. In the given example, the client is the buyer, and the disclosure must be made to the buyer.

The brokerage need not inform the *Real Estate Council of Ontario (RECO)*, the seller, or the listing brokerage. Referral fees need to be disclosed only to the client of the brokerage.

M1.38. Answer A.

Salesperson Ben has breached his obligation under the section '*dealing with other registrants*'. He must not have interfered with the contract of another registrant by advising his friend how he could terminate the listing with the other brokerage and list with his brokerage.

M1.39. Answer A.

An agent is expected to work in good faith and disclose all facts to the client. Salesperson Jenny breached her fiduciary duty of good faith and full disclosure owed to her seller client. She was also in violation of her obligation under REBBA with respect to disclosure of *indirect interest* in the property because the buyer was her sister.

The duties of indemnification, competence, and confidentiality do not apply in the given scenario.

M1.40. Answer B.

The client has a duty to indemnify the agent (hold the agent harmless) when the agent is working lawfully and within the authority granted for providing services to the client.

It is not correct that the client must indemnify the agent under *all* circumstances. If the agent is working in excess of the authority granted or is in breach of its duty, the client is not obligated to indemnify the agent.

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