ANSWER KEY: DIAGNOSTIC TEST

1. **(4)** In some states, the mortgage creates a lien on the property; the note is the promise to repay the debt. (75)

2. **(4)** The promissory note is evidence of the debt but not evidence of title. Deeds are the instruments that convey title and provide evidence of ownership interest. (75)

3. **(3)** The amortized, flexible, and balloon all provide for payment of principal. (75–76)

4. **(3)** The FDIC insures checking and savings accounts up to $250,000 per account. (82)

5. **(3)** Conventional loans may be insured by a private agency. (77)

6. **(4)** The veteran is entitled to a loan up to four times the amount of the entitlement. (78)

7. **(4)** The FHA will not provide money for a loan. However, the VA will provide the money for a loan where the supply of money is scarce. (77–78)

8. **(3)** An FHA loan provides public mortgage insurance for which the buyer pays an insurance premium. The VA does not charge the veteran for the guarantee of the loan. (78)

9. **(2)** A blanket mortgage would be used to finance the development of a subdivision and is applied to more than one parcel of land. A partial-release clause is used in order for the developer to sell individual lots out from under the blanket. (79)

10. **(2)** A deed of trust is used in place of a mortgage in states such as California. A mortgage or deed of trust and a note are required for a conventional loan. The mortgagee creates a lien on the property as security for the debt. The note is a promise to repay the debt. (75)

11. **(3)** An adjustable-rate mortgage uses an index note. An open-end mortgage allows for borrowing additional money up to the original loan amount. (76)

12. **(3)** Judicial foreclosure is one of the three alternative procedures available to the lender for mortgage foreclosure. Nonjudicial foreclosure does not require the lender to sue the borrower in court. Under strict foreclosure, the court may award title to the lender. Strict foreclosure happens after a delinquent borrower has been served adequate notice giving him or her a deadline to pay off the debt. If the deadline is missed, the property is awarded to the lender and no sale takes place. (76)

13. **(2)** Foreclosure is related to the redemption period, which may end with the foreclosure sale (equitable redemption) or after the foreclosure sale (statutory redemption). If the lender does not recover what is owed by the borrower, it may sue for a deficiency judgment. Laches was discussed above. (76–77)

14. **(1)** The trustor is the borrower and the beneficiary is the lender. (75)

15. **(3)** Freddie Mac is a warehousing agency in the secondary mortgage market. VA and FHA are not involved in the secondary mortgage market purchase of mortgages. (82)

16. **(4)** FHA and VA mortgages are assumable with qualification. (77-78)

17. **(4)** Equity is the difference between what an asset is worth and what is owed on it. Usury laws limit the interest rate that can be charged to borrowers by lenders. Disintermediation refers to an outflow of funds from a lender which limits the lender's lending capacity. (84)

18. **(4)** The cash investment on an FHA-insured loan is 3.5 percent of the sales price or appraised value plus closing costs. Gift letters may be used for the required down payment. The maximum mortgage formula for houses over $50,000 is 97.75 percent. (77-78)

19. **(2)** A wraparound mortgage is a second mortgage wrapped around a first mortgage. A package mortgage is used to purchase both real and personal property like a motel. An open-end mortgage allows for future advances of funds by the lender to the borrower. (79)

20. **(4)** Freddie Mac functions in the secondary mortgage market; HUD is a regulatory agency. (78)

21. **(4)** Subordination allows a lender to agree to consent to a subsequent mortgage having legal priority thus placing the original lender in a lesser position. Laches refers to the inability to assert a legal right because of undue delay in asserting it. Hypothecation is pledging property as security for a loan without giving up possession of the property. Usury is charging an interest rate higher than that allowed by state law. (83)

22. **(2)** An impound account is a trust account established for funds to meet the customary requirements of a property, e.g., taxes and insurance. Subordination and hypothecation were discussed above in answer 21. A land contract would be an example of seller financing. (84)

23. **(3)** Both the DVA and FHA require buyers who assume existing mortgages to be qualified to do so. Therefore, the original buyer's liability is assigned to the new buyer in a process called novation. (78)

24. **(2)** One point is one percent of the loan amount. $60,000 × 0.02 = $1,200. (85)

25. **(4)** FNMA and GNMA function in the secondary mortgage market. The FDIC insures lenders' checking and savings accounts. (81)

26. **(2)** CLUE is an acronym for Comprehensive Loss Underwriting Exchange report. (84)

27. **(3)** A temporary buydown allows the seller to prepay some of the buyer's interest in order to subsidize his or her payment. This effectively buys the interest rate down on a temporary basis. For example, in a 7 percent market, using a 2 – 1 buydown, the interest rate is artificially reduced by 2 percent the first year and 1 percent the second year. In other words, the buyer makes a payment based on 5 percent the first year and 6 percent the second. At the beginning of the third year the subsidy goes away and the buyer pays the full freight. (81)

28. **(4)** Often a buydown loan enables the purchaser to qualify for a larger mortgage because of the lower interest rate. The lower rate is created by the seller's willingness to pay the discount points, which is often considered *prepaid interest*. (80)

29. **(2)** $4,000 is 2.5% of the borrowed amount. $4,000 ÷ 2.5% = $160,000. (85)

30. **(3)** Divide the PI payment of $1,200 by $5.68 to find the number of thousands to borrow. $1,200 ÷ $5.68 = 211.27 × 1,000 = $211,268 (77)

31. **(2)** The lender charged the higher interest rate because of the greater risk of payback. A short sale occurs when a lender agrees to take less than the full amount of the debt owed by the borrower. A straight loan is an interest-only loan. A graduated payment loan allows for smaller payments in the early years of a loan. (76)

32. **(4)** Mortgage fraud is punishable by up to 30 years in prison. (83)

33. **(3)** FHA mortgage insurance allows for a down payment as small as 3.5 percent. (77–78)

34. **(4)** FHA has increased its limit for one-unit dwellings up to $729,750 depending on geographic location. (77–78)

35. **(4)** The RAM is repaid when the owner sells, transfers her interest, or no longer occupies the home as her primary residence. (80)

36. **(3)** An underwater mortgage is also known as a negative equity or an "upside down" mortgage. (85)

TEST SCORE

FINANCING			
Rating	**Range**	**Your Score**	
Good = 80% to 100%	29–36	Total Number	36
Fair = 70% to 79%	25–28	Total Wrong	–
Needs improvement = Lower than 70%	24 or less	Total Right	

Passing Requirement: 25 or Better

ANSWER KEY: MATCHING QUIZ

1. E	6. N	11. R	16. F
2. M	7. D	12. K	17. S
3. J	8. A	13. B	18. I
4. H	9. P	14. T	19. O
5. L	10. C	15. G	20. Q