

## DIAGNOSTIC TEST

- All of the following statements concerning real estate financing are correct *EXCEPT*
  - the mortgage generally is considered a lien.
  - the mortgagee is the lender.
  - an owner of property by whom the mortgage is executed is called a mortgagor.
  - a promissory note is security for a mortgage.
- A promissory note is *NOT*
  - a negotiable instrument.
  - evidence of debt.
  - a document in which the debtor agrees to repay the stated loan.
  - evidence of title.
- Which of the following payment plans allows for periodic payments of interest only, with the principal due as a lump sum payment at maturity?
  - Amortized
  - Flexible
  - Straight
  - Balloon
- All of the following are participants in the secondary mortgage market *EXCEPT*
  - FHLMC.
  - FNMA.
  - FDIC.
  - GNMA.
- Which of the following is *NOT* characteristic of a conventional loan?
  - It is neither insured nor guaranteed by public agency.
  - Security rests on the borrower's ability to pay and the collateral pledged.
  - It is never insured by a private agency.
  - The ratio of the loan to the value of the property usually does not exceed 80 percent without private mortgage insurance.
- Depending on the value of the house and the income of the veteran, the Department of Veterans Affairs (DVA) will guarantee a lender up to four times the amount of the veteran's entitlement up to
  - \$25,000.
  - \$36,000.
  - \$60,000.
  - \$104,250.
- Which of the following is *NOT* characteristic of a Federal Housing Administration (FHA) loan?
  - A mortgage insurance premium is charged.
  - The lender is insured against loss.
  - The maximum mortgage debt is determined by a formula.
  - The FHA provides the money for the loan.
- Which of the following is *NOT* characteristic of a DVA loan?
  - The loan is guaranteed.
  - Only an eligible veteran or eligible dependents of veterans, as well as reservists and National Guard members who have served for six years, may qualify for the loan.
  - The loan is insured.
  - Little or no down payment is required.
- A mortgage that covers more than one parcel of real property is
  - a junior mortgage.
  - a blanket mortgage.
  - a package mortgage.
  - an open-end mortgage.
- Granting a conventional loan requires that the borrower provide the lender with which of the following?
  - Sales contract and hypothecation instrument
  - Mortgage and promissory note
  - Deed of trust and sales contract
  - Mortgage and letter of intent

11. A graduated-payment mortgage
  1. contains an interest-rate provision related to a selected index.
  2. is granted for a term of 3 to 5 years and is secured by a long-term mortgage of up to 30 years.
  3. allows a buyer to purchase a home with initial monthly payments lower than the level-payment, amortized mortgage.
  4. allows the mortgagor to borrow additional money during the term of the loan, up to the original amount of the mortgage.
12. Under judicial foreclosure, the
  1. mortgage generally must include a power-of-sale clause.
  2. court may award title to the lender.
  3. lender sues the borrower in court and obtains a judgment and court order to sell.
  4. lender may sell the property without obtaining a judgment.
13. The process by which a mortgagor regains his or her interest in a property is called
  1. foreclosure.
  2. redemption.
  3. a deficiency judgment.
  4. laches.
14. You financed the purchase of a home by means of a deed of trust. Until you pay off the debt, title will be held by the
  1. trustee.
  2. trustor.
  3. seller.
  4. beneficiary.
15. The tandem plan involves
  1. the VA and FHA.
  2. Fannie Mae and Freddie Mac.
  3. Fannie Mae and Ginnie Mae.
  4. Ginnie Mae and Freddie Mac.
16. Which of the following statements about FHA mortgages is *FALSE*?
  1. FHA mortgages require a larger down payment than VA mortgages.
  2. There is no prepayment penalty.
  3. FHA mortgages are assumable provided the new borrower qualifies.
  4. FHA mortgages are not assumable.
17. The difference between interest rates in financing arrangements such as wraparound mortgages is called
  1. equity.
  2. usury.
  3. disintermediation.
  4. arbitrage.
18. On the FHA loan, the buyer would *NOT* be required to
  1. provide mortgage insurance to protect the lender.
  2. meet FHA credit standards.
  3. find an approved lender willing to make the loan.
  4. make a 20 percent down payment on the loan.
19. A mortgage on four lots with a partial release clause would be
  1. a wraparound mortgage.
  2. a blanket mortgage.
  3. a package mortgage.
  4. an open-end mortgage.
20. Funds for Department of Veterans Affairs (DVA) loans usually are provided by
  1. HUD.
  2. the secondary mortgage market.
  3. Freddie Mac.
  4. approved lenders.
21. Charging a rate of interest in excess of the maximum rate allowed by law is
  1. laches.
  2. hypothecation.
  3. subordination.
  4. usury.

22. Pledging property as security for a loan without losing possession of it is
  1. a subordination agreement.
  2. hypothecation.
  3. an impound account.
  4. seller financing.
23. A veteran buys a home with a DVA-guaranteed loan. Two years later, the veteran sells the home to a buyer who, with the lender's approval, assumes the veteran's loan. In this situation, the veteran is
  1. responsible for paying an insurance fee charged by the DVA.
  2. responsible for paying the loan origination fee.
  3. no longer financially responsible if the buyer defaults six months later.
  4. financially responsible if the buyer defaults six months later.
24. If a lender charges a borrower two points on a \$60,000 loan, what will be the service charge for points?
  1. \$120
  2. \$1,200
  3. \$2,400
  4. None of the above
25. Reserve requirements for banks are controlled by which of the following federal agencies?
  1. FNMA
  2. GNMA
  3. Federal Deposit Insurance Corporation (FDIC)
  4. The Federal Reserve
26. The insurance report that tells about previous insurance claims is
  1. CLUB.
  2. CLUE.
  3. CASE.
  4. COST.
27. In order to help a buyer qualify for financing, a homeowner paid money to the lender to subsidize the buyer's PI payment for three years. This type of loan is called a(n)
  1. ARM.
  2. permanent buydown.
  3. temporary buydown.
  4. contract for deed.
28. A buyer asked a seller to pay two points to permanently lower the buyer's interest rate. This type of loan is called
  1. graduated payment mortgage.
  2. wraparound.
  3. purchase-money mortgage.
  4. buydown.
29. A buyer purchased a home and asked the seller to pay  $2\frac{1}{2}$  discount points equaling \$4,000. How much money did the buyer want to borrow?
  1. \$100,000
  2. \$160,000
  3. \$170,000
  4. None of the above
30. If a buyer can afford a PI payment of \$1,200 and the amortization rate for a  $5\frac{1}{2}$  percent 30-year mortgage is \$5.68 per thousand, how much money can the buyer afford to borrow? (Round to the closest dollar.)
  1. \$115,680
  2. \$116,816
  3. \$211,268
  4. \$211,286
31. A lender makes a loan to a borrower with a poor credit history and charges a higher interest rate because of the greater risk involved in the loan being paid back. This would be an example of a
  1. straight loan.
  2. subprime loan.
  3. short sale.
  4. graduated payment loan.

32. Which statement does *NOT* correctly describe mortgage fraud?
1. Mortgage fraud can be created through the use of false identity on loan applications without the true person's knowledge.
  2. The use of an inflated appraisal in collusion with a lender is an example of mortgage fraud.
  3. Mortgage fraud is investigated by the FBI.
  4. Mortgage fraud is punishable by up to 40 years in federal prison.
33. FHA mortgage insurance makes it possible to lower a down payment to as little as
1. 1 percent.
  2. 2.5 percent.
  3. 3.5 percent.
  4. 5 percent.
34. Depending on geographic location, FHA will insure mortgages on one-unit dwellings for up to
1. \$104,250.
  2. \$271,050.
  3. \$417,000.
  4. \$729,750.
35. A loan that allows older homeowners to convert part of their equity in their home to tax-free income without having to sell, give up title, or take on a new monthly mortgage payment is called a
1. purchase-money mortgage.
  2. blanket mortgage.
  3. wraparound mortgage.
  4. reverse annuity mortgage.
36. A mortgage on a home in which the home is worth less than the amount owed to the bank that holds the mortgage is called a(n)
1. wraparound mortgage.
  2. purchase-money mortgage.
  3. underwater mortgage.
  4. reverse annuity mortgage.

## MATCHING QUIZ

The column on the right contains brief memory links to important terms in Chapter 6.  
Write the letter of the matching term on the appropriate line.

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|-------------------------|--|
| A. Mortgagor            | 1. _____ Fixed P & I payment where the principal portion increases with each payment   |
| B. Mortgagee            | 2. _____ Government-insured loan   |
| C. Straight loan        | 3. _____ Recovery after default  |
| D. Balloon payment      | 4. _____ Due-on-sale clause  |
| E. Amortized            | 5. _____ A higher yield is realized from the difference in interest rates charged for the use of the same money a second time. |
| F. Acceleration clause  | 6. _____ Government-guaranteed loan  |
| G. Defeasance clause    | 7. _____ Final and larger payment pays the entire balance  |
| H. Alienation clause    | 8. _____ The borrower in a mortgage loan transaction   |
| I. Judicial foreclosure | 9. _____ This loan covers more than one parcel of property   |
| J. Redemption           | 10. _____ Interest-only loan   |
| K. Deficiency judgment  | 11. _____ Pledging something as collateral without giving up possession of it  |
| L. Arbitrage            | 12. _____ Result of a lawsuit for the collection of the rest of a debt owed  |
| M. FHA                  | 13. _____ The holder of the mortgage   |
| N. DVA or VA            | 14. _____ Interest rate exceeds legal limit  |
| O. Discount point       | 15. _____ Applies when a debt is defeated (paid) and a release is filed to return the collateral pledged                       |
| P. Blanket mortgage     | 16. _____ Clause that calls the balance owed because of the borrower's default   |
| Q. Package mortgagee    | 17. _____ Purchases government-insured and guaranteed loans on the secondary market  |
| R. Hypothecation        | 18. _____ Court-ordered sale following a borrower's default  |
| S. GNMA                 | 19. _____ Computed as a percent of the loan  |
| T. Usury                | 20. _____ This type of loan includes both real and personal property   |