

Financing Practice Mid-Term – Robert Rooks

1. The introduction of the Federal Housing Administration and the mortgage insurance that it provided led to increased use of:
 - A. adjustable-rate mortgages
 - B. interest-only mortgages
 - C. mortgages with balloon payments
 - D. thirty-year fixed-rate mortgages

2. A lender charges an origination fee to:
 - A. buy down the buyer's interest rate
 - B. increase the lender's yield
 - C. pay for costs associated with making a loan, such as salaries and overhead
 - D. pay the mortgage broker's commission

3. In a "drive-by appraisal," an appraiser typically will:
 - A. assume that a well-maintained exterior means a well-maintained interior
 - B. gather information primarily from online sources
 - C. not examine the interior of the house
 - D. All of the above

4. A seller offers to pay discount points on behalf of a buyer to make a loan more affordable. This is known as a/an:
 - A. buydown
 - B. lock-in
 - C. origination fee
 - D. wraparound

5. Dividends represent a return on this form of investment:
 - A. corporate stock
 - B. bonds
 - C. certificate of deposit
 - D. savings accounts

6. An informal version of an appraisal performed by a real estate agent, based on the sales comparison method, is a:
 - A. competitive market analysis
 - B. conditional appraisal
 - C. final value estimate
 - D. preliminary listing

7. The purpose of a loan guaranty is to:
 - A. protect the lender from foreclosure loss
 - B. protect the borrower from a deficiency judgment
 - C. protect the seller from foreclosure
 - D. None of the above

8. Dealing with collection issues is an aspect of:
- A. loan origination
 - B. disintermediation
 - C. loan servicing
 - D. loan guaranty
9. In a given year, the federal government receives \$4 trillion in revenues, but incurs \$4.2 trillion in expenditures. The \$200 billion shortfall is the:
- A. federal debt
 - B. federal deficit
 - C. reserve requirement
 - D. trade deficit
10. The requirements for negotiable instruments are set forth in:
- A. the Uniform Commercial Code
 - B. the Securities and Exchange Commission Regulations
 - C. the Home Loan Disclosure Act
 - D. None of the above
11. Which of the following is not a government-sponsored enterprise?
- A. FNMA
 - B. Freddie Mac
 - C. Ginnie Mae
 - D. All of the above
12. With an adjustable-rate mortgage, the loan's interest rate:
- A. may increase, but cannot decrease, during the loan term
 - B. cannot increase after the first five years of the loan term
 - C. may increase or decrease during the loan term
 - D. is adjusted whenever the index rate changes
13. Which of the following persons would NOT likely use a subprime lender?
- A. A borrower who needs a "super jumbo" loan to purchase a very expensive property
 - B. A doctor with a credit score of 750 but who, because of student loans, has a very high debt-to-income ratio
 - C. A developer who needs funds to construct a shopping mall on a large parcel of land
 - D. A freelance writer who usually earns a high income but cannot document a reliable income stream
14. A promissory note:
- A. gives the lender the right to foreclose in the event of default
 - B. establishes the borrower's legal obligation to repay the loan
 - C. is not necessary for a transaction in which a deed of trust is used
 - D. All of the above

15. Which of the following statements regarding mortgage insurance is true?
- A. The borrower must meet the insurer's underwriting standards
 - B. The insurer agrees to reimburse the borrower for interest paid on the loan
 - C. The lender ordinarily pays the insurance premiums
 - D. The insurance covers losses due to fire or other hazards
16. An intermediary who does not originate loans but brings together lenders and borrowers for a commission is a:
- A. loan correspondent
 - B. mortgage banker
 - C. mortgage broker
 - D. mortgage company
17. The purchaser at a sheriff's sale is given a/an:
- A. deficiency judgment
 - B. writ of execution
 - C. deed of reconveyance
 - D. certificate of sale
18. Many savings and loan associations faced insolvency as a result of questionable investment practices during the:
- A. 1930s
 - B. 1950s
 - C. 1980s
 - D. 1990s
19. A nonprofit organization provides banking services to the members of a large labor union. This would be known as a:
- A. credit union
 - B. loan correspondent
 - C. mutual savings bank
 - D. savings and loan association
20. Loans sold to a secondary market agency must:
- A. have been held in portfolio for a probationary period
 - B. comply with the agency's underwriting rules
 - C. be underwritten by the secondary market agency
 - D. be sponsored by an independent investor
21. An example of a liquid asset is a/an:
- A. parcel of real estate
 - B. bond
 - C. certificate of deposit
 - D. None of the above

22. An investor supplies money for an enterprise or project. This money is called:
- A. investment yield
 - B. cash deposits
 - C. liquid assets
 - D. investment capital
23. The introduction of automated underwriting systems and credit scoring has:
- A. shortened the amount of time it takes to originate a loan
 - B. reduced the costs of loan processing
 - C. increased the costs of loan processing
 - D. Both A and B
24. A loan underwriter evaluates:
- A. the value of the property
 - B. the applicant's financial situation
 - C. the risk of loss
 - D. All of the above
25. Which of the following is not a step in the closing process?
- A. Inspection
 - B. Issue of title insurance policy
 - C. Preparation of settlement statement
 - D. Underwriting
26. Which of these types of income is least likely to be counted as part of a loan applicant's stable monthly income?
- A. Social security payments
 - B. Unemployment compensation
 - C. Welfare payments
 - D. Rental income
27. In recent years, the underwriting process has become a more exact science due to:
- A. manual underwriting
 - B. automated underwriting
 - C. risk classifications
 - D. documentation classifications
28. Which of the following is an example of a finance instrument?
- A. bond
 - B. deed of trust
 - C. certificate of deposit
 - D. savings account
29. The guarantor for a loan may be a/an:
- A. private party
 - B. governmental agency
 - C. nonprofit organization
 - D. All of the above

30. All of the following are AU risk classifications, except:
- A. "Approve"
 - B. "Deny"
 - C. "Caution"
 - D. "Refer"
31. The interest rate of an ARM is adjusted:
- A. once a month
 - B. every time the index rate changes
 - C. at the end of the rate adjustment period
 - D. at the beginning of the mortgage payment adjustment period
32. An AU report makes recommendations based on:
- A. appraisal
 - B. documentation
 - C. risk
 - D. All of the above
33. A buyer obtains an \$85,000 loan to purchase a \$100,000 property. This would be categorized as a/an:
- A. 80% loan
 - B. 90% loan
 - C. 95% loan
 - D. 97% loan
34. A lender is charging an interest rate that is lower than market rates. To increase its yield on the loan, the lender will charge:
- A. a mortgage broker's fee
 - B. an application fee
 - C. an origination fee
 - D. discount points
35. A mortgage or deed of trust gives the lender:
- A. the right to foreclose
 - B. the right to enter the property
 - C. the right to sell the property
 - D. None of the above
36. All of the following are features of an ARM, except:
- A. an index
 - B. a rate adjustment period
 - C. a discount rate
 - D. a note rate

37. To provide notice and establish the priority of a security interest, a lender must file a/an:
- A. affidavit of ownership
 - B. financing statement
 - C. estoppel letter
 - D. installment note
38. When an asset has increased in value over time, it has:
- A. diversified
 - B. recaptured
 - C. appreciated
 - D. None of the above
39. A mortgage must contain all of the following, except:
- A. the names of the parties
 - B. an accurate legal description of the property
 - C. the amount of the downpayment
 - D. an identification of the promissory note
40. Which of the following is NOT one of the three basic methods of appraising real estate?
- A. Income method
 - B. Quantity survey method
 - C. Replacement cost method
 - D. Sales comparison method
41. The purpose of a settlement statement is to:
- A. disclose the commission that will be paid to the broker who arranged the loan transaction
 - B. disclose loan-related charges that the buyer must pay at closing
 - C. disclose the true costs of financing, such as the loan's annual percentage rate
 - D. provide a detailed list of all charges and credits for each party to a transaction
42. What federal law requires the disclosure of a loan's annual percentage rate in certain circumstances?
- A. Fair Credit Reporting Act
 - B. Financial Institutions Reform, Recovery, and Enforcement Act
 - C. Real Estate Settlement Procedures Act
 - D. Truth in Lending Act
43. The first mortgage-backed securities program was offered by:
- A. Ginnie Mae
 - B. Freddie Mac
 - C. Fannie Mae
 - D. HUD
44. The borrower under a mortgage is called the:
- A. mortgagor
 - B. mortgagee
 - C. grantor
 - D. grantee

45. The monthly payments for an interest-only loan cover:
- A. principal
 - B. interest
 - C. principal and interest
 - D. None of the above
46. Which of the following is NOT included when calculating a loan's total finance charge?
- A. Origination fee
 - B. Discount points
 - C. Appraisal fee
 - D. Mortgage insurance fees
47. A due-on-sale clause is the same thing as:
- A. a subordination clause
 - B. a prepayment provision
 - C. an alienation clause
 - D. a partial satisfaction clause
48. Which of the following would NOT be considered a recurring obligation?
- A. A student loan with five years of payments remaining
 - B. A car loan with six months of payments remaining
 - C. Alimony payments
 - D. Revolving payments on a credit card
49. All of the following are ownership investments, except:
- A. mutual funds
 - B. stocks
 - C. real estate
 - D. bonds
50. Which loan repayment period would involve paying the least amount of interest?
- A. 20 years
 - B. 15 years
 - C. 30 years
 - D. 35 years
51. A note that requires payments of principal and interest is called a/an:
- A. straight note
 - B. annual note
 - C. installment note
 - D. interest note

52. A 30-year loan is fixed for the first five years of the loan, and then is readjusted at five years to the current market rate; the rate and interest payments will remain fixed for the remaining 25 years of the loan term. This is a/an:

- A. adjustable-rate mortgage
- B. balloon/reset mortgage
- C. interest-first mortgage
- D. two-step mortgage

53. An investor loan is:

- A. used to cover closing costs until a borrower's old home is sold
- B. a loan that will provide the lender will a comparable investment profit
- C. used to purchase a property that will not be occupied by the borrower
- D. a loan designed to provide a borrower with income for retirement

54. A conventional loan:

- A. is insured by the FHA
- B. is guaranteed by a government agency
- C. is purchased by GNMA on the secondary market
- D. None of the above

55. A loan's annual percentage rate is an annual percentage that expresses the relationship of:

- A. the total finance charge to the total amount financed
- B. the total amount financed to the length of the loan term
- C. the lender's profit margin to the total amount financed
- D. the amount of discount points charged to the total amount financed

56. Underwriting a loan involves:

- A. evaluating the appraisal
- B. verifying information
- C. reviewing the loan application
- D. All of the above

57. The primary mortgage market was originally a/an:

- A. national market made up of large financial conglomerates
- B. local market made up of local lending institutions
- C. national market made up of local lending associations
- D. local market made up of financial cooperatives

58. A buyer's income must have sufficient:

- A. quantity, durability, and quality
- B. durability, creditworthiness, and quality
- C. stability, durability, and creditworthiness
- D. creditworthiness, durability, and stability

59. In a foreclosure:

- A. the lender purchases the property from the borrower, extinguishing the debt
- B. the lender sells the property and pays the debt with the proceeds of the sale
- C. the borrower sells the property and pays the lender
- D. None of the above

60. Which of the following is a possible solution to a low appraisal?
- A. Buyer pays a bigger downpayment
 - B. Request for reconsideration of value
 - C. Seller lowers price to appraised value
 - D. All of the above
61. A property owner's equity is the difference between:
- A. the appraised value of the property and the liens against it
 - B. the market value of the property and the liens against it
 - C. the original purchase price and the liens against it
 - D. None of the above
62. Which of the following is the final step in the appraisal process?
- A. Apply appropriate methods of appraisal
 - B. Define the problem
 - C. Issue the appraisal report
 - D. Reconcile the result to arrive at a final value estimate
63. Which of the following loans has an interest rate that remains constant throughout the loan term?
- A. Fixed-rate loan
 - B. Adjustable-rate mortgage
 - C. Budget mortgage
 - D. Package loan
64. Which type of penalty is no longer standard in residential loan agreements?
- A. acceleration penalties
 - B. release penalties
 - C. prepayment penalties
 - D. assumption fees
65. A loan that complies with Fannie Mae and Freddie Mac guidelines is known as a:
- A. conforming loan
 - B. conventional loan
 - C. nonconforming loan
 - D. portfolio loan
66. Which of the following is not likely to be considered an asset?
- A. Mixing bowls
 - B. Car
 - C. Antique sofa
 - D. Vacant lot

67. Fannie Mae and Freddie Mac are willing to buy:
- A. investor loans
 - B. super jumbo loans
 - C. loans for purchase of a fourplex
 - D. Both A and C
68. The great majority of residential mortgage loans are:
- A. kept in portfolio by the issuing lender
 - B. sold on the secondary market
 - C. used to finance investments in other securities markets
 - D. sold on the primary market
69. Automated underwriting is a/an:
- A. system of underwriting that uses index tables to rate the risk of default
 - B. computer program that analyzes applications and recommends approval or rejection
 - C. underwriting standard designed by Ginnie Mae
 - D. None of the above
70. Income is considered durable if it can be expected to continue for at least:
- A. 1 year
 - B. 5 years
 - C. 3 years
 - D. None of the above
71. A subprime loan is characterized by which of the following?
- A. Higher rates and fees
 - B. More flexible underwriting standards
 - C. Risk-based pricing
 - D. All of the above
72. Periodic changes in the level of activity in a local real estate market are called:
- A. disintermediation
 - B. capital turnover
 - C. real estate cycles
 - D. appreciation
73. Which loan-to-value ratio poses the least amount of risk to the lender?
- A. 80%
 - B. 85%
 - C. 96%
 - D. 90%
74. Karen applies for a mortgage to buy her first home. She submits an application to Big Bank, who approves the loan. This transaction is part of the:
- A. secondary market
 - B. primary market
 - C. national market
 - D. None of the above

75. All of the following are advantages of a 15-year loan, except:
- A. borrower equity builds up quickly
 - B. a lower interest rate
 - C. higher monthly payments
 - D. lower amount of total interest paid
76. Which of the following is not a tool the Federal Reserve uses to implement federal monetary policy?
- A. Interest rates
 - B. Open market operations
 - C. Reserve requirements
 - D. Taxation
77. The federal funds rate is the:
- A. percentage of deposits that lenders must maintain in their vaults or on deposit at a Federal Reserve Bank
 - B. prevailing rate charged to mortgage borrowers by commercial banks
 - C. rate charged by the Federal Reserve for short-term loans to lenders facing a shortfall in funds
 - D. rate that banks charge each other for overnight, unsecured loans
78. In a real estate transaction, the maker of the promissory note is the:
- A. lender
 - B. trustor
 - C. buyer
 - D. creditor
79. Prior to the Great Depression, home loans typically:
- A. had a fixed interest rate
 - B. required refinancing or a balloon payment after five years
 - C. were fully amortized
 - D. were repaid over a 30-year term
80. Fannie Mae and Freddie Mac are willing to buy adjustable-rate mortgages with an LTV of up to:
- A. 80%
 - B. 90%
 - C. 95%
 - D. 97%
81. What is the name of the third party who will hold money and documents on behalf of the buyer and seller until the transaction is ready to close?
- A. Arbitrator
 - B. Escrow agent
 - C. Loan officer
 - D. Real estate broker
82. A life insurance company uses third party originators to originate loans for it in various local markets. The life insurance company is an example of a:
- A. loan correspondent
 - B. retail lender

- C. warehouse lender
- D. wholesale lender

83. When an investor breaks even on an investment, he has received a/an:

- A. return of the investment
- B. return on the investment
- C. appreciation on the investment
- D. appreciation of the investment

84. The process of originating a loan includes:

- A. processing the application
- B. making an approval decision
- C. funding the approved loan
- D. All of the above

85. How is the federal funds rate set?

- A. By the Federal Advisory Council
- B. By the Federal Reserve Board of Governors
- C. By each of the individual Federal Reserve Banks, with the approval of the Board of Governors
- D. Member banks decide how much they will charge each other, although the Federal Open Market Committee sets a target for the federal funds rate

86. An ARM's interest rate is tied to a/an:

- A. index
- B. rate adjustment period
- C. lien
- D. estoppel letter

87. For a residential loan transaction, an appraiser will be concerned with a property's:

- A. investment value
- B. liquidation value
- C. market value
- D. value in use

88. How many Federal Reserve Districts and Federal Reserve Banks are there?

- A. 7
- B. 9
- C. 12
- D. 14

89. Compared to a 30-year loan, a 15-year loan usually has:
- A. a higher interest rate and a larger monthly payment
 - B. a lower interest rate and a larger monthly payment
 - C. a higher interest rate and a smaller monthly payment
 - D. a lower interest rate and a smaller monthly payment
90. An independent mortgage company:
- A. brings together lenders and borrowers in exchange for a commission
 - B. is affiliated with a commercial bank
 - C. is subject to the same regulations as commercial banks
 - D. originates residential loans, but does not accept deposits
91. A borrower may obtain a swing loan when:
- A. the borrower lacks sufficient equity in his old home
 - B. the borrower has not been able to sell the old home
 - C. the value of the new property is greater than that of the old property
 - D. the lender requires interim insurance
92. Negative amortization causes the principal balance to:
- A. increase
 - B. decrease
 - C. diversify
 - D. stabilize
93. Who sits on the Federal Open Market Committee?
- A. Seven members appointed by the U.S. president
 - B. The Federal Reserve Chairman and the twelve Reserve Bank presidents
 - C. The seven members of the Board of Governors, plus five of the twelve Reserve Bank presidents
 - D. Twelve members, each selected by the board of directors of each Federal Reserve Bank
94. Who “owns” a Federal Reserve Bank?
- A. Individual investors who buy shares
 - B. Member commercial banks within the District
 - C. The Board of Governors
 - D. The federal government
95. The interest rate charged by the Federal Reserve System to member banks who borrow funds to cover shortfalls is the:
- A. discount rate
 - B. federal funds rate
 - C. open market rate
 - D. reserve rate

96. As a general rule, an underwriter won't count income from self-employment as stable monthly income unless the loan applicant has operated his or her business profitably for at least:

- A. two years
- B. three years
- C. five years
- D. seven years

97. Economic growth that is too strong and too fast is usually accompanied by:

- A. deficit spending
- B. deflation
- C. inflation
- D. unemployment

98. Which of the following is an example of a negotiable instrument?

- A. Corporate stock
- B. Check
- C. Certificate of deposit
- D. Bond

99. An investor's mix of investments is referred to as a/an:

- A. portfolio
- B. mutual fund
- C. security
- D. reserve

100. The process of analyzing the results provided by different approaches of value, in order to reach one final estimate of value, is known as:

- A. balancing
- B. interpolation
- C. reconciliation
- D. regression

Answer Key

1. D

Explanation: The FHA-insured loan program allowed loans to be paid off over 30 years at a fixed rate of interest; this quickly became the standard mortgage in the U.S.

2. C

Explanation: The origination fee, which may also be called an administrative charge or service fee, pays for a lender's operating costs such as salaries, facilities, and overhead.

3. D

Explanation: A drive-by appraisal is based primarily on information gathered from online sources and verified by a quick examination of the property's exterior. It should only be used where a property is very typical for its area.

4. A

Explanation: A seller will "buy down" a buyer's interest rate by paying discount points on the loan.

5. A

Explanation: Dividends are the share of a corporation's profits paid to corporate shareholders as a return on their investment in the corporation's stock.

6. A

Explanation: A competitive market analysis is an informal version of a sales comparison appraisal, performed by a real estate agent to help a seller price a home.

7. A

Explanation: Mortgage insurance and loan guaranties are designed to protect the lender from foreclosure loss in the event that the borrower defaults on the mortgage.

8. C

Explanation: Loan servicing involves dealing with collection issues such as late payments and foreclosure proceedings, as well as processing borrower payments and preventing borrower default.

9. B

Explanation: If the federal government spends more money than it receives as revenue, the shortfall in a particular year is known as the federal deficit. The Treasury covers the shortfall by issuing interest-bearing securities to investors.

10. A

Explanation: The Uniform Commercial Code (UCC) has been adopted by almost every state and sets forth the requirements for negotiable instruments.

11. C

Explanation: Fannie Mae and Freddie Mac are government-sponsored enterprises that are chartered by Congress and supervised by the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae is a government agency created within HUD.

12. C

Explanation: The primary feature of an adjustable-rate mortgage (ARM) is that the interest rate increases or decreases during the loan term to reflect any changes in the cost of money.

13. C

Explanation: A private developer seeking funds for a commercial construction project might turn to a commercial bank or private investors such as a real estate investment trust.

14. B

Explanation: A promissory note states the borrower's (maker) promise to pay the lender (payee) the amount of the loan. The note is basic evidence of the debt and shows who owes money to whom.

15. A

Explanation: Because the insurer assumes much of the risk of loan default, the insurer underwrites the loan. This means that the borrower must also meet the qualifying standards of the mortgage insurance company.

16. C

Explanation: A mortgage broker helps borrowers find a loan on the best possible terms. Once a mortgage broker arranges a loan for a borrower, he will be paid through a commission. (Some mortgage companies engage in mortgage brokering as well as mortgage banking, but mortgage companies are primarily involved in originating loans.)

17. D

Explanation: The highest bidder at a sheriff's sale receives a certificate of sale.

18. C

Explanation: Hundreds of federally-insured savings and loans became insolvent during the crisis of the 1980s.

19. A

Explanation: A credit union is a nonprofit cooperative organization that provides financial services to members of a particular group, such as members of a labor union or employees of a large company.

20. B

Explanation: Loans sold to a secondary market agency must comply with the agency's underwriting guidelines.

21. D

Explanation: Real estate is considered an illiquid asset because it is not easily convertible into cash. Bonds and certificates of deposit are investments where the investor's money is tied up for a specific period of time. As a result, the liquidity of these investments is less than stocks or mutual funds.

22. D

Explanation: Investment capital is money that is used to fund business enterprises and other ventures, projects, and transactions.

23. D

Explanation: Technological changes such as automated underwriting have sped up the loan application and approval process, and reduced the cost of loan processing.

24. D

Explanation: The primary task of a loan underwriter is to evaluate the risk of loss to the lender. This includes determining the value of the property and evaluating the loan applicant's financial situation.

25. D

Explanation: Underwriting is part of the loan approval process. Inspection, issue of title insurance policies, and preparation of the settlement statement all occur during the closing process.

26. B

Explanation: Unemployment compensation is rarely treated as stable monthly income because eligibility usually lasts for a specified period of time.

27. B

Explanation: Technological advances in computer hardware and programming have made automated underwriting a standard practice in today's lending industry.

28. B

Explanation: Examples of finance instruments include deeds of trust, promissory notes, and mortgages.

29. D

Explanation: A loan guarantor may be a private party, governmental agency, or nonprofit organization. It encourages the lender to make a loan on terms more favorable to the borrower.

30. B

Explanation: An AU system gives risk classifications of "Approve" or "Accept" if the applications meet all applicable qualifying standards. If the application does not meet all of the qualifying standards, it will be given a risk classification of "Refer" or "Caution."

31. C

Explanation: The rate adjustment period determines how often the lender will adjust the interest rate on a loan. It could be every six months, once a year, or every three years, for example.

32. D

Explanation: The recommendations in an AU report fall into three categories: risk, documentation, and appraisal.

33. B

Explanation: A 90% loan is a loan where the LTV is over 80%, but not more than 90%.

34. D

Explanation: Discount points are charged in order to increase the lender's yield, or profit, on a loan. A lender may offer a below-market interest rate in exchange for charging discount points.

35. A

Explanation: A security instrument such as a mortgage or deed of trust gives the lender the right to foreclose on the property if the borrower doesn't repay the loan.

36. C

Explanation: An ARM has a number of special features including an index, a rate adjustment period, and a note rate. A discount rate is the interest rate charged when a member of the Federal Reserve System borrows money from a Federal Reserve Bank.

37. B

Explanation: A lender must file a financing statement in the office of the Secretary of State in the state where the transaction took place to provide public notice and establish priority of the lender's security interest in the property.

38. C

Explanation: An investment appreciates when the value of the asset increases over time. This is considered a return on the investment.

39. C

Explanation: A valid mortgage must contain the names of the parties, an accurate legal description of the property to be mortgaged, and it must identify the promissory note it secures.

40. B

Explanation: The three basic approaches to value are the sales comparison method, the replacement cost method, and the income method.

41. D

Explanation: A settlement statement is prepared by an escrow agent. It is a detailed list of debits from and credits to each party to a transaction.

42. D

Explanation: The Truth in Lending Act requires lenders to make certain disclosures to consumer loan applicants so that applicants can understand exactly how much they will pay for credit.

43. A

Explanation: The first mortgage-backed securities program was offered in 1970 by Ginnie Mae. Securities were based on pools of FHA and VA loans.

44. A

Explanation: The borrower (mortgagor) mortgages his property to the lender (mortgagee) under a mortgage.

45. B

Explanation: An interest-only loan has monthly payments of interest and at the end of the loan term the borrower is required to make a balloon payment of the principal.

46. C

Explanation: The origination fee, buyer-paid discount points, mortgage broker's fee, finder's fees, and mortgage insurance fees are included in the total finance charge. Appraisal fees, credit report charges, title insurance costs, and seller-paid discount points are not included.

47. C

Explanation: An alienation clause is also called a due-on-sale clause because it gives the lender the right to demand payment of the loan balance in the event that the property securing the loan is sold.

48. B

Explanation: Recurring obligations include installment debts, revolving debts, and obligations such as alimony and child support. However, installment debts with ten or fewer months of payments remaining will usually not be included.

49. D

Explanation: Bonds are considered debt investments. Bondholders essentially loan the face amount of the bonds to the issuing entity and receive interest in exchange for the loan.

50. B

Explanation: One advantage of a shorter loan term is that the borrower pays less total interest on the loan. Lenders are more inclined to offer lower interest rates for loans with shorter terms.

51. C

Explanation: The periodic payments of an installment note include part of the principal and part of the accrued interest. A fully amortized installment note will be paid off entirely (both principal and interest) by the maturity date of the note.

52. D

Explanation: A two-step mortgage is fixed for a set number of years (usually either five or seven), then adjusted to reflect the current market rate, where it remains for the rest of the loan term.

53. C

Explanation: When a loan applicant is not going to occupy the home being purchased, the loan is referred to as an investor loan. This is a key factor considered by underwriters when evaluating the risk of borrower default on the loan.

54. D

Explanation: A conventional loan is one which is not insured or guaranteed by a government agency. Ginnie Mae is only authorized to purchase FHA and VA loans, not conventional loans.

55. A

Explanation: The annual percentage rate describes the relationship of the total finance charge to the total amount financed, expressed as an annual percentage.

56. D

Explanation: Loan underwriting involves reviewing the loan application, verifying the information in the application, evaluating the property appraisal, applying lender qualifying standards, and making an approval recommendation.

57. B

Explanation: The primary market was originally a local market, made up of local lending institutions such as savings and loan associations and banks. Today the primary market is much more complicated as a result of interstate banking and Internet lenders.

58. A

Explanation: An underwriter examines a potential borrower's income for quantity, quality, and durability.

59. B

Explanation: A foreclosure involves the lender forcing the sale of the property and collecting the debt out of the sale proceeds. A lender has the right to foreclose under a security instrument.

60. D

Explanation: If a low appraisal occurs, the buyer may make a larger downpayment, the seller may choose to lower the price, or the agent may request a reconsideration of value.

61. B

Explanation: A home owner's equity is the difference between the current market value of the property and the liens against the property.

62. C

Explanation: The final step in the appraisal process is to prepare an appraisal report for the client.

63. A

Explanation: The fixed-rate loan has become the standard type of mortgage loan extended to home buyers. The interest rate remains constant throughout the loan term.

64. C

Explanation: Prepayment penalties are no longer standard in residential loan agreements. The Fannie Mae/Freddie Mac promissory note used for most conventional loans gives the borrower the right to prepay without a penalty.

65. A

Explanation: A conforming loan complies with Fannie Mae and Freddie Mac guidelines, and may be sold on the secondary market.

66. A

Explanation: Almost any asset can help a loan applicant. Real estate, automobiles, jewelry, stocks, bonds, and furniture are all assets that may be listed on an application. Mixing bowls are very unlikely to help a potential borrower with his application.

67. D

Explanation: Fannie Mae and Freddie Mac will purchase loans for properties with up to four units, even if the owner doesn't plan to occupy the unit. However, the loan amount may not exceed the maximum loan amount set by these agencies.

68. B

Explanation: Most residential mortgage loans are sold on the secondary market. This allows lenders to have a greater amount of funds available to make more loans to home buyers.

69. B

Explanation: Automated underwriting involves using a computer program that is designed to analyze loan applications and make recommendations for approval or rejection.

70. C

Explanation: Durable income is income that can be expected to continue for at least three years. Wages from permanent employment, permanent disability benefits, and investment interest are all examples of durable income.

71. D

Explanation: A subprime loan usually offers flexible underwriting standards to buyers with credit problems or unusual needs. The greater risk is offset by charging higher rates and fees.

72. C

Explanation: Ups and downs in the level of activity in a local real estate market, where a boom is followed by a slump, are called real estate cycles. These can have a significant impact on the availability of funds for lending.

73. A

Explanation: The lower the loan-to-value ratio, the less risk to the lender. A buyer who makes a larger downpayment will work harder to avoid defaulting on the loan. It also makes it more likely that the lender will recover the loan if foreclosure is necessary.

74. B

Explanation: The primary mortgage market involves transactions between home buyers and residential mortgage lenders. The secondary mortgage market is where lenders sell their loans to investors to free up funds for more loans.

75. C

Explanation: The monthly payments for a 15-year loan are much higher than for a 30-year loan, which makes it difficult for many buyers to qualify for a loan.

76. D

Explanation: The Federal Reserve System does not have control over taxation, which is an aspect of fiscal policy. Laws and rules concerning taxation are established by the legislative and executive branches of the government.

77. D

Explanation: The federal funds rate is the interest rate that banks charge each other for short-term loans, such as loans to obtain funds necessary to meet Fed reserve requirements.

78. C

Explanation: The maker of a promissory note in a real estate transaction is the buyer and the payee is the lender. If the seller is financing the sale, the seller is the payee.

79. B

Explanation: Home loans prior to the Great Depression would usually require the borrower to make interest-only payments for five years, at which point the lender could renew the loan for another five years at a different interest rate, or else require the borrower to repay the entire loan balance.

80. C

Explanation: If certain conditions are met, Fannie Mae and Freddie Mac are willing to purchase adjustable-rate loans with an LTV of up to 95%.

81. B

Explanation: An escrow agent, or closing agent, acts as a neutral party who coordinates the closing process, and holds documents and money until closing.

82. D

Explanation: A wholesale lender does not work directly with home buyers. Instead, the lender remains behind the scenes, and makes loans through loan correspondents.

83. A

Explanation: An investor receives a return of an investment when he recaptures the amount originally invested.

84. D

Explanation: Residential mortgage lenders originate loans for home buyers. Loan origination involves processing the application, deciding whether to approve the loan, and then funding the loan.

85. D

Explanation: The Federal Reserve does not directly control the federal funds rate; banks determine how much they will charge each other for overnight loans. However, the Federal Open Market Committee sets targets for the federal funds rate and implements open market operations in an effort to achieve that target.

86. A

Explanation: The lender selects the index that serves as an indicator of the changes in the cost of money. An index is a published statistical report.

87. C

Explanation: An appraiser for a residential transaction attempts to determine a property's market value: the most probable price the property would sell for in a fair sale in a competitive and open market.

88. C

Explanation: There are twelve Federal Reserve Districts, each containing a Federal Reserve Bank.

89. B

Explanation: 15-year loans reduce the lender's risk and ties up the lender's capital for a shorter period of time. As a result, lenders are willing to offer lower interest rates on these loans. The disadvantage of 15-year loan terms is that the monthly payments are much higher than those for a 30-year loan.

90. D

Explanation: An independent mortgage company originates loans. It is not a depository institution, and is not subject to the same regulations as depository institutions.

91. B

Explanation: If the purchase of the new home is ready to close, the borrower may have to apply for a swing loan to cover closing costs if the old home has not yet sold. The swing loan is secured by the borrower's equity in the old home.

92. A

Explanation: Negative amortization occurs when the unpaid interest is added to the principal balance of a loan, increasing the total balance owed.

93. C

Explanation: The Federal Open Market Committee consists of all seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four other Reserve Bank presidents (chosen on a rotating basis).

94. B

Explanation: Member commercial banks within a Federal Reserve District are required to buy stock in the bank in the district.

95. A

Explanation: The discount rate is the interest rate charged for short-term loans to lenders with a shortfall in funds that leaves them unable to meet Fed reserve requirements.

96. A

Explanation: Self-employment income is considered risky because it is often unpredictable. Lenders are generally wary of new businesses due to the likelihood of failure and generally want to see a business that has operated profitably for at least two years.

97. C

Explanation: Inflation is a trend of general price increases throughout the economy, which usually occurs as a result of too much economic growth too quickly. The Federal Reserve attempts to promote economic growth while limiting inflation.

98. B

Explanation: A check is an example of a negotiable instrument. It is a written, unconditional promise to pay a certain sum of money to the bearer and is signed by the maker.

99. A

Explanation: An investor's portfolio is made up of a mix of investments and cash reserves.

100. C

Explanation: Reconciliation is the process of distilling results from various appraisal methods into one estimate of the property's market value.