Chapter 13 Multiple Choice Questions

1. The primary difference between a secured and unsecured loan is
   a. whether or not the lender charges interest on the debt.
   b. whether or not the lender has a claim on specific assets of the borrower in the event of default.
   c. whether the borrower can simply surrender the pledged asset to the lender instead of repaying the debt.
   d. All of the above

2. The practice of charging interest to borrowers who pledge their property as collateral but leaving them in possession of the property is called
   a. security.
   b. mortgage.
   c. hypothecation.
   d. usury.

3. In states that recognize the concept of _______, mortgagees are entitled to possession of mortgaged property upon default.
   a. lien theory
   b. title theory
   c. acceleration
   d. hypothecation

4. In a promissory note, the _______ clause calls for all payments being due immediately in the case of default.
   a. defeasance
   b. acceleration
   c. due on sale
   d. prepayment

5. Seller financing, where the seller holds the title on the property, is often called
   a. purchase money mortgage.
   b. deed of trust.
   c. land contract.
   d. second mortgage.
6. Seller financing, where the seller holds a security interest on the property, best describes a  
   a. purchase money mortgage.  
   b. deed of trust.  
   c. land contract.  
   d. second mortgage.  

7. The key distinction between mortgages and deeds of trust is that  
   a. with a mortgage, title to the real estate is held by a third party.  
   b. with a mortgage, use and possession of the real estate is a right belonging to the lender.  
   c. with a deed of trust, title to the real estate is held by a third party.  
   d. with a deed of trust, use and possession of the real estate is a right belonging to the lender.  

8. In most cases, real estate is purchased by means of  
   a. a secured loan.  
   b. cash.  
   c. an unsecured loan.  
   d. None of the above  

9. Under _______, ownership of mortgaged property is held by the lender until the loan is completely repaid.  
   a. title theory  
   b. deeds of trust  
   c. lien theory  
   d. security deed theory  

10. Charging interest while leaving the borrower in possession of the property is known as  
    a. renting.  
    b. sale and lease back.  
    c. leasing.  
    d. hypothecation.  

11. In a real estate transaction, the debt obligation secured by a ________ is generally acknowledged by a ________.
    a. lease, defeasance
    b. covenant, acceleration
    c. mortgage, promissory note
    d. mortgagor, deed of trust
12. In periods of rising interest rates, the borrower may be able to sell his property for a higher price if the new owner can assume the existing loan. Because this is advantageous to the lender, a ______ may be included in the promissory note to preclude assumption.
   a. due-on-sale clause
   b. defeasance clause
   c. prepayment clause
   d. acceleration clause

13. If the mortgagor fails to make payments or defaults on other terms of the mortgage agreement, the mortgagee can begin ______ proceedings.
   a. equity of redemption
   b. due-on-sale
   c. foreclosure
   d. hypothecation

14. After a loan default, ______ is the right to redeem a property before the foreclosure sale, while ______ is the right to redeem a property after the foreclosure sale.
   a. right of statutory redemption, equity of redemption
   b. hypothecation, equity of redemption
   c. equity of redemption, hypothecation
   d. equity of redemption, right of statutory redemption

15. A legal device used in financing real estate, where the title remains with the seller until the buyer has paid an agreed-upon percentage of the debt, is called a
   a. deed of trust.
   b. mortgage.
   c. trust deed.
   d. land contract.

16. Which of the following factors makes mortgage credit necessary for most home buyers?
   a. Large transaction amounts
   b. Short payment periods
   c. Federal regulation
   d. Lack of available credit
17. When a borrower and lender work out an agreement by which the borrower surrenders the property to the lender in exchange for forgiveness of debt, the process is called
   a. deed in lieu of foreclosure.
   b. trust deed.
   c. land contract.
   d. mortgage.

18. FHA-insured loans provide protection for the _______ in the event of mortgage default.
   a. borrower
   b. seller
   c. lender
   d. FHA

19. PMI provides protection for the _______ in the event of mortgage default.
   a. borrower
   b. Fannie Mae
   c. lender
   d. FHA

20. The proliferation of mortgaged backed securities is largely attributed to the guarantee provided by _______ that all payments of principal and interest on loans insured by federal agencies will occur as scheduled to the note holders.
   a. Fannie Mae
   b. VA
   c. FHA
   d. Ginnie Mae

21. Originally, _______ was created by Congress to operate a secondary mortgage market for conventional loans.
   a. FHA
   b. VA
   c. Fannie Mae
   d. Freddie Mac
22. Which of the following categories account for the largest portion of all mortgage credit in the United States?
   a. 1 - 4 family residential
   b. Multifamily residential
   c. Commercial
   d. Farm

23. Because of the short-term nature of their liabilities, commercial banks tend to
   a. make real estate loans with longer time horizons.
   b. make real estate loans with shorter duration.
   c. avoid real estate loans as much as possible.
   d. purchase real estate loans from life insurance companies.

24. Of the following sources of residential mortgage financing, which holds the greatest portion of outstanding debt?
   a. Mortgage pools and trusts
   b. Commercial banks
   c. Savings institutions
   d. Mortgage bankers

25. What is the basic distinction between mortgage bankers and mortgage brokers?
   a. Mortgage brokers typically do not service the loans they originate.
   b. Mortgage bankers typically do not service the loans they originate.
   c. Mortgage brokers do not originate new loans, but only service existing loans.
   d. Mortgage bankers do not originate new loans, but only service existing loans.

26. The primary activity of a mortgage banker is
   a. collecting deposits from savers.
   b. selling loans to long-term investors.
   c. originating loans using capital deposited by savers.
   d. finding buyers and sellers.

27. Unlike FHA loans, VA loans are backed by
   a. title insurance.
   b. mortgage insurance purchased by the borrower.
   c. mortgage insurance paid for by the federal government.
   d. a guarantee program backed by the federal government.
28. The development of a secondary market for mortgage loans is largely attributable to
   a. the actions of individual borrowers.
   b. the policies of the Federal Reserve Board.
   c. the success of the savings and loan industry.
   d. the standardization of mortgage loans due to insurance and guarantee programs.

29. Which of the following organizations was created specifically to improve the
    housing finance system following the Great Depression of the 1930s?
   a. Government National Mortgage Association
   b. Federal Home Loan Mortgage Corporation
   c. Federal National Mortgage Association
   d. Federal Housing Administration

30. The Real Estate Settlement Procedures Act (RESPA) prohibits all of the following
    except
   a. kickbacks paid to brokers.
   b. referral fees paid to brokers.
   c. mandatory use of a title insurance company.
   d. disclosure of closing costs prior to the closing.

31. The lender qualifies the __________ by verifying there are no “clouds” on the
    title.
   a. buyer
   b. seller
   c. income
   d. property

32. The Real Estate Settlement Procedures Act (RESPA) was enacted by Congress to
    provide each of the following except
   a. prohibition of referral fees.
   b. prohibition of mandating a specific title insurance company.
   c. a maximum level of closing costs.
   d. limitations on monthly reserves or escrow payments.

33. The requirement that lenders disclose the annual percentage rate of interest is
    mandated by the
   a. Real Estate Settlement and Procedures Act
   b. Consumer Credit Protection Act
   c. Equal Credit Opportunity Act
   d. Fair Housing Act
34. Because many mortgage loans are sold in the secondary market, lenders use ________ guidelines based on what secondary market participants are willing to buy.
   a. income ratio
   b. demographic
   c. ethnic
   d. architectural style

35. Under some special loan programs, the loan to value ratio for a FHA loan can be as high as
   a. 95%.
   b. 98.75%.
   c. 100%.
   d. 80%.

36. The loan to value ratio for a VA loan can be as high as
   a. 95%.
   b. 98.75%.
   c. 100%.
   d. 80%.

37. The percentage of a borrower’s gross monthly income required to meet monthly housing expenses (only) is called the
   a. mortgage debt ratio.
   b. total debt ratio.
   c. loan-to-value ratio.
   d. income-to-debt ratio.

38. Given a loan applicant’s gross income of $2,500, a mortgage payment of $600, a car payment of $250, property tax of $90, insurance of $30, an allowable total debt ratio of 36%, and an allowable mortgage debt ratio of 28%, the applicant would qualify by
   a. the mortgage debt ratio only.
   b. both the mortgage debt and total debt ratios.
   c. the total debt ratio only.
   d. neither ratio.