Chapter 11 – Principles of Real Estate Financing

1. D
Explanation: If a lender defaults on a note subject to an acceleration clause in the mortgage or deed of trust, the lender will "call" the loan. This will require the borrower to pay the loan amount in full.

2. C
Explanation: The trustee will sign the deed of reconveyance and deliver it to the trustor. The trustee should also record the deed of reconveyance to release the property from the lien.

3. B
Explanation: Mortgage interest rates reflect the supply of and demand for mortgage funds. If the supply of such funds increases, demand will drop, and lenders will decrease interest rates in order to encourage borrowers.

4. D
Explanation: The trustor may stay in possession of the property during the reinstatement period. The trustor has no right of possession once the trustee's sale has occurred, though.

5. C
Explanation: A construction loan is a temporary loan, so it's also known as an interim loan. A takeout loan is permanent financing obtained once construction is complete.

6. C
Explanation: A promissory note is not usually recorded, since it does not directly concern a real property. The mortgage or deed of trust that secures the promissory note would, of course, need to be recorded.

7. C
Explanation: Taken over the term of the loan, an installment note will require less interest than a straight note of the same length and interest rate. This is because the amount of each month's interest payment under an installment note is recalculated according to the remaining principal balance, while under a straight note, interest is always calculated based on the full amount of the loan. The monthly payments of an installment note, however, may be higher than those of a straight note, since they encompass paying down the principal as well as interest.

8. D
Explanation: Under a blanket mortgage, once an act has been performed (almost always the payment of a certain amount of money), some of the properties subject to the lien may be released from the lien. This is done through a partial release clause in the mortgage.

9. B
Explanation: Usury laws are state laws that make it illegal to charge more than a maximum interest rate on certain loans.

10. B
Explanation: The promise to make a permanent take-out loan upon the borrower's request is a standby loan commitment.

11. D
Explanation: A subordination clause allows a subsequent deed of trust to take priority over a deed of trust that was recorded earlier.

12. D
Explanation: To create a tight money market, the Federal Reserve would take actions that reduce the amount of funds available to lend. It would do so by raising key interest rates (the discount rate and the federal funds rate), raising reserve requirements, and selling bonds.

13. C
Explanation: A straight note requires no payment of the principal balance during the term of the loan, only payment of interest. The principal balance is paid off as a balloon payment at the end of the loan term.

14. A
Explanation: Mortgages and deeds of trust must be recorded to establish the priority of the lender's security interest.

15. C
Explanation: The principal advantage of deed of trust foreclosure is that a trustee's sale may be held within months of the default, rather than waiting through a judicial foreclosure, sheriff's sale, and redemption period.