

Chapter 12 – Applying for a Mortgage Loan

1. D

Explanation: An underwriter will consider both the applicant's credit history and net worth. One important consideration in net worth is whether the borrower will have adequate reserves left over after closing. And the underwriter will also consider whether the value of the property is sufficient for it to serve as security for the loan.

2. D

Explanation: If a lender charges points, it will increase the yield on the loan (in other words, increase the lender's profit). It may also enable the lender to charge a below-market interest rate in order to attract borrowers, since the difference will be made up with the amount paid as points.

3. C

Explanation: The most difficult element in the decision whether or not to make a loan is assessing how risky the loan will be.

4. A

Explanation: The nominal interest rate is not a required disclosure. The lender must disclose the annual percentage rate (which reflects the interest rate after factoring in all other loan costs), the total finance charge, and the total dollar amount of the loan.

5. B

Explanation: A conventional loan will usually require a lower loan-to-value ratio than an FHA loan, because the conventional loan does not come with governmental insurance in case of default. The greater risk means the lender is less likely to accept an LTV of 95% or greater.

6. A

Explanation: The three main considerations a loan underwriter will use to evaluate a borrower are the borrower's income, net worth, and credit history. Considerations of marital status or race would be a violation of the law. Although the underwriter will consider the property separately, the property is not a consideration in whether to approve the borrower.

7. C

Explanation: Amortization is a means of paying off a debt on an installment basis, where the amount paid toward principal increases as the amount paid toward interest decreases.

8. B

Explanation: Because each loan is an investment, a lender's primary concern is minimizing the risk that the loan creates. It analyzes the risks posed by each potential borrower during the underwriting process.

9. A

Explanation: Most of a savings and loan association's lendable funds come from long-term deposits by individuals.

10. A

Explanation: A TILA disclosure statement must contain the total finance charge and the annual percentage rate (APR), which is an expression of the loan's annual interest rate after factoring in all finance charges.

11. C

Explanation: Mutual mortgage insurance on an FHA loan works the same way as private mortgage insurance: it reimburses a lender for a portion of the value of the loan in the event of a default.

12. D

Explanation: One principal advantage of VA-guaranteed loans is that they do not require a downpayment. For a large loan that exceeds the maximum guaranty amount, a lender may still charge a downpayment.

13. A

Explanation: Blockbusting is a discriminatory listing practice that is prohibited by the Fair Housing Act. The other items are predatory lending practices; fee packing involves unnecessary fees while equity stripping and loan flipping involve repeated unnecessary refinances.

14. C

Explanation: Negative amortization occurs when a monthly payment isn't sufficient to pay all the interest due on a loan, and the unpaid interest is added to the principal balance, causing the balance to go up instead of down.

15. C

Explanation: A balloon payment is characteristic of a loan that isn't amortized (or is partially amortized). The borrower will be responsible for paying off the remaining principal balance at the end of the loan term.