

Real Estate Principles

Chapter 12 Quiz

1. A prudent lender who is deciding whether or not to make a real estate loan to a prospective borrower will ensure that:
 - A. the market value of the property is greater than the loan amount
 - B. the borrower's credit is satisfactory
 - C. the borrower has adequate cash reserves after paying the downpayment and closing costs
 - D. All of the above
2. A lender will charge discount points when issuing a new loan in order to:
 - A. increase the effective yield on the loan
 - B. close the gap between market interest rates and fixed rates
 - C. pay for administrative costs in originating the loan
 - D. Both "A" and "B"
3. Which of the following elements in the underwriting decision is the most difficult for the lender to evaluate?
 - A. The value of the property securing the mortgage
 - B. The costs involved in originating the loan
 - C. The degree of risk involved in the mortgage
 - D. The conditions of the mortgage money market
4. Which of the following would not be included in a disclosure statement required by the Truth in Lending Act?
 - A. The interest rate
 - B. Annual percentage rate
 - C. Total finance charge
 - D. Total amount financed
5. When compared with an FHA loan, a conventional loan will offer the borrower:
 - A. lower interest rates
 - B. a lower loan-to-value ratio
 - C. a longer repayment period
 - D. less stringent qualifying standards
6. In deciding whether or not to approve a potential borrower, a lender will evaluate the borrower according to which of the following?
 - A. Borrower's credit characteristics
 - B. Borrower's marital status
 - C. Borrower's ethnicity
 - D. Age and size of the property

7. Liquidation of a financial obligation through installment payments is known as:
- A. acceleration
 - B. alienation
 - C. amortization
 - D. conveyance
8. When a lender decides whether or not to make a real estate loan, which of the following would it be most concerned with?
- A. Availability of mortgage funds
 - B. Degree of risk involved
 - C. Key interest rates
 - D. Federal and state regulations
9. Savings and loan associations obtain most of the funds used for making home loans from:
- A. savings by individuals
 - B. savings by businesses
 - C. the Federal Reserve
 - D. the Federal National Mortgage Association
10. The Truth in Lending Act requires that the cost of credit on certain consumer loans is expressed as a/an:
- A. annual percentage rate
 - B. maximum percentage rate
 - C. minimum percentage rate
 - D. discount rate
11. The mutual mortgage insurance on an FHA loan will:
- A. protect the lender if the property is destroyed
 - B. protect the lender in the event of the borrower's death
 - C. protect the lender in the event of default by the borrower
 - D. be paid for by the lender
12. Which of the following is a unique feature of VA-guaranteed loans?
- A. The downpayment is determined by the Certificate of Reasonable Value
 - B. The downpayment does not have to more than 3% of the sale price
 - C. Interest rates on VA-guaranteed loans are set by the Department of Veterans Affairs
 - D. VA-guaranteed loans do not require a downpayment
13. Which of the following is not a predatory lending practice?
- A. Blockbusting
 - B. Equity stripping
 - C. Fee packing
 - D. Loan flipping

14. If the monthly payments on an adjustable rate mortgage are insufficient to cover the interest due, the result is:

- A. a lengthened loan term
- B. additional principal payments
- C. negative amortization
- D. a lower loan-to-value ratio

15. A balloon payment in a first deed of trust is:

- A. the first payment made after the origination of the loan
- B. the payment required when the property is sold pursuant to an alienation clause
- C. the final payment made on the balance due at the end of a loan term
- D. the penalty imposed for prepayment of a loan in its first five years