

Chapter 15

Answer Key

1. a. When the periodic payments are not enough to fully amortize the loan by the time the final payment is due, the final payment is larger than the others and this is called a balloon payment loan. (261)
2. b. The loan-to-value ratio (LTV) is the ratio of debt to the value of the property, value being the sale price or appraisal value, whichever is less. (264)
3. d. $4 \times \$3,150 = \$12,500$ (annual interest); $\$12,600$ divided by $101\frac{1}{2}\%$ (.105) = $\$120,000$ (principal amount). (265, Math FAQ's)
4. b. Fannie Mae buys a block or pool of mortgages which include FHA loans from a lender, which may then be used as collateral for mortgage-backed securities which are sold on the global market. (260)
5. c. A seller sells the land the building to an investor and leases it back from the investor as a tenant. (274)
6. a. Construction loans are generally short-term or interim financing. The takeout loan is permanent financing to repay the construction financing lender. (273)
7. b. The open-end mortgage allows the borrower to "open" the mortgage to increase the debt to its original amount after the debt has been reduced by payments over a period of time. (273)
8. d. A homeowner can use the equity buildup in a home to finance such things as education and is an alternative to refinancing. (274)
9. b. Regulation Z applies when credit is extended to individuals for personal, familial, or household uses, not business use. (275)
10. c. FHA insures loans, but does not lend money. Loans must be obtained from FHA-approved lending institutions. (268)
11. b. Fannie Mae, Ginnie Mae, and Freddie Mac are all part of the secondary mortgage market and purchase existing mortgage loans. (259, 260)
12. b. A mortgage broker is an intermediary who brings borrowers and lenders together. (259)

13. d. The certificate of eligibility merely sets forth the maximum guarantee to which the veteran is entitled. However, a lender will only issue the amount cited in a CRV (certificate of reasonable value) which is based on a VA-approved appraisal. (270)
14. c. A partially amortized loan is a balloon payment loan. Principal is still owed at the end of the term because periodic payments are not enough to fully amortize the loan and the final payment is larger than the others. (261)
15. d. A borrower must apply for a certificate of eligibility which sets forth the maximum guarantee to which the veteran is entitled. Discount points can be paid by either the buyer or seller; prepayment penalties are prohibited, and funding fees are determined by the VA. (270)
16. b. Loans are originated in the primary mortgage market and bought and sold in the secondary mortgage market after they have been funded. (259)
17. d. The payment in an amortized loan partially pays off both principal and interest. At the end of the term the full amount of the principal and interest due is reduced to zero. (261)
18. b. A purchase money mortgage is the instrument given by the purchaser to a seller, who takes back a note for all or part of the purchase price. (272)
19. d. Because the loan is being paid off faster and spread out over a shorter period of time, the payments in a 20- year loan would be higher than with a 30-year loan. (261)
20. b. $\$1,012 \times 12 = \$12,144$ (annual payments); $\$12,144$ divided by $5 \frac{1}{2} \%$ (.055) interest= $\$220,800$ (principal amount). (Math FAQ's)
21. a. Effective on new loans originating after July 1999, a federal law requires that PMI automatically terminates if a borrower has accumulated at least 22% equity in the home, and is current on mortgage payments. (267)
22. a. A blanket loan covers more than one parcel or lot. Usually the loan contains a provision called a partial release clause, which allows the borrower to obtain the release of a lot from the blanket lien by repaying a certain amount of the loan. (272)
23. d. Any specific down payment listed in an ad would be a trigger item that would require that additional information be included. (276)
24. b. Freddie Mac provides a secondary market for mortgage loans, primarily conventional loans. (260)

25. a. The ECOA prohibits lenders from discriminating against credit applicants on the basis of several factors, including marital status. (277)
26. b. $\$13,500 \times 6\% (.06) = \810 (annual interest); $\$810$ divided by 2 = $\$405$ (semi-annual interest). (Math FAQ's)
27. b. A package loan includes not only the real estate, but also all personal property and appliances installed on the premises. (272)
28. a. The discount rate is the rate charged by the Federal Reserve when it lends to its member banks. When the discount rate is high, bank interest rates are high and fewer loans are made. (257)
29. b. The buyer executes a wraparound mortgage to the seller, who collects payments on the new loan and continues to make payments on the old loan. (273)
30. a. In a PMI program, the buyer purchases an insurance policy that provides the lender with funds in the event that the lendee defaults on the loan. (267)
31. c. Rate caps limit the amount the interest rate may change. Most ARM's have two types of rate caps- periodic and life-of-the-loan. (262)
32. d. Interest-only mortgages require payment of interest only for a certain period of time with the principal balance and interest recalculated over the remaining years of the loan. (261)
33. c. $\$412.50 \times 12 = \$4,950$ (annual interest); $\$4,950$ divided by $\$60,000$ (loan balance) = $8\frac{1}{4}\%$ (.0825) interest. (Math FAQ's)
34. b. With a reverse annuity mortgage, payments are made by the lender to the borrower and are based on the equity the homeowner has invested in the property given as a security for the loan. (264)
35. d. Conventional loans are viewed as the most secure loans because their loan-to-value ratios are often the lowest. (264)