

Chapter 3

Answer Key

1. c. Liberalized mortgage terms and payment plans offer many people the option of purchasing a home. First-time homebuyers may make penalty-free withdrawals from their IRA's with some restrictions. (35)
2. d. Real estate taxes, not personal property taxes, are an expense of home ownership. (34)
3. d. $\$100,000$ (listing price) \times 80% (cost) = $\$80,000$; $\$100,000 - \$80,000 = \$20,000$ (profit); $\$20,000$ divided by $\$80,000 = 25\%$ profit. (Math FAQ's)
4. b. Coinsurance is a provision requiring homeowners to maintain insurance equal to at least 80% of the replacement cost. (37)
5. d. The equity represents the increasing ownership interest (the paid-off share) in the property as the mortgage debt, the principal, is reduced. The value of the property minus the mortgage debt equals equity. (35)
6. d. Real estate taxes and mortgage interest on first and second homes can be deducted on income tax returns. (35)
7. c. If the homeowner has not maintained insurance on the dwelling to at least 80% of its replacement cost, then the loss will be settled for replacement cost less depreciation (actual cash value) or it will be prorated by dividing the percentage of replacement cost actually covered by the policy by the minimum coverage required. (37)
8. d. $\$188,000 = 110\%$ of original cost. $\$188,000$ divided by 110% (1.10) = $\$170,900$ (to nearest dollar). (Math FAQ's)
9. b. $\$96,000 \times 10\%$ (.10) = $\$9,600$ (down payment); $\$96,000 - \$9,600 = \$86,400$. (loan amount); $\$86,400 \times 1.5\% = \$1,296$ (loan origination fee); $\$9,600 + \$1,296 = \$10,896$ (cash needed). (Math FAQ's)
10. c. Reforms in the late 1990's changed tax considerations for most homeowners. Currently an individual filing separately may exclude $\$250,000$ profit from capital gains tax, and couples filing jointly can exclude up to $\$500,000$ in profits. (35)

11. d. Flood insurance is required in designated areas and is a separate policy from the basic homeowner policy. (37)
12. c. Real estate taxes and mortgage interest on first and second homes are allowable deductions. (35)
13. a. Paying only interest on a mortgage would not increase equity because the principal amount of the mortgage loan is not being reduced. Equity represents the paid-off share of the property, held free of any mortgage. (35)
14. b. $\$125,000 \times 70\% (.7) = \$87,500$ (loan amount); $\$125,000 - \$87,000 = \$37,500$ down payment; $\$37,500 - \$2,000$ (earnest money) = $\$35,500$ (balance of cash needed). (Math FAQ;s)
15. c. A mixed-use development (MUD) combines commercial and residential in a single high-rise. (32)
16. d. The Hendersons must have lived in the house 2 out of the last 5 years, which they have done, to receive the \$500,000 exemption from capital gains tax. (35)
17. b. Planned Unit Development (PUD) owners do not have direct ownership interest in the common areas and have a community association to maintain those areas with fees collected from the owners. (32)