

Chapter 3 Questions

Concepts of Home Ownership

1. Efforts to increase homeownership include all the following *EXCEPT*
 - a. requiring lower down payments.
 - b. offering adjustable-rate mortgages
 - c. penalizing first-time homebuyers for using funds from IRA's.
 - d. lowering closing costs for first-time home buyers.

2. The real cost of owning a home includes certain costs/expenses that many people overlook. Which of the following is *NOT* such a cost/expense of home ownership?
 - a. Income lost on cash invested in the home
 - b. Interest paid on borrowed capital
 - c. Maintenance and repair expenses
 - d. Personal property taxes

3. Margie listed her real estate for sale at \$100,000. If her cost was 80 percent of the listing price, what will her percentage of profit be when her real estate is sold for the listing price?
 - a. 10 percent
 - b. 15 percent
 - c. 20 percent
 - d. 25 percent

4. Most homeowner's insurance policies contain which of the following clauses?
 - a. A property improvement clause
 - b. A coinsurance clause
 - c. A co-ownership clause
 - d. A property devaluation clause

5. That portion of the value of owners' property that exceeds the amount of their mortgage debt is called
 - a. equality.
 - b. escrow.
 - c. surplus.
 - d. equity.

6. Homeowners may deduct all of the following expenses when preparing their income tax return EXCEPT
 - a. real estate taxes.
 - b. mortgage interest on a first home.
 - c. mortgage interest on a second home.
 - d. mortgage interest on a third home.

7. If a homeowner's insurance policy provides coverage for less than 80 percent of the full replacement cost of the dwelling, then the loss of the residence will be settled for
 - a. the market value of the property less the land value.
 - b. the lowest repair bid.
 - c. either the actual cash value or the prorated repair cost.
 - d. the total replacement cost.

8. The Levines sold their vacation home for \$188,000. If they made a profit of 10 percent, what was the original cost of their property?
 - a. \$169,200
 - b. \$179,000
 - c. \$179,200
 - d. \$170,900

9. The selling price of a property is \$96,000. This can be financed if the buyer can put 10 percent down and pay a loan origination fee of 1.5 percent. How much cash must the buyer produce to complete this transaction?
 - a. \$10,080
 - b. \$10,896
 - c. \$11,040
 - d. \$11,084

10. Federal income tax law excludes gain realized on the sale of a primary residence for individuals filing separately and for couples filing jointly. The amount of this exclusion is (separately/jointly):
 - a. \$100,000/\$200,000
 - b. \$125,000/\$250,000
 - c. \$250,000/\$500,000
 - d. \$300,000/\$600,000

11. Damage from which of the following is *NOT* covered in a basic homeowner's policy?
 - a. Fire and lightning
 - b. Explosion
 - c. Windstorm and hail
 - d. Flood

12. Federal income tax regulations allow homeowners to reduce their taxable income by amounts paid for
 - a. repairs and maintenance.
 - b. hazard insurance premiums.
 - c. real estate taxes.
 - d. principal and interest.

13. When Homeowner Harry's sold his residence recently, he found that he had more than \$20,000 in equity. This equity did *NOT* come from
 - a. the use of an interest-only mortgage payment plan.
 - b. the principal portion of his PITI monthly mortgage payments.
 - c. increases in market value of his house due to appreciation and inflation.
 - d. his down payment.

14. The buyer of a \$125,000 home has paid \$2,000 as earnest money and has a loan commitment for 70 percent of the purchase price. The *balance* of the cash the buyer needs to complete the transaction is
 - a. \$3,500.
 - b. \$35,500.
 - c. \$37,000.
 - d. \$37,500.

15. Which of the following type of development combines office space, stores, and residential units in a single, vertical community known as a
 - a. planed unit development
 - b. manufactured housing park
 - c. mixed -use development
 - d. time-share community

16. Three years ago Dr. and Mrs. Henderson moved from the house they had owned for 20 years, but did not sell it. They decided to travel and bought a mobile home to live in. They now sell the house. How much of their capital gain on the house will be taxable?
 - a. 15 percent, depending on their tax bracket
 - b. 28 percent, depending on their tax bracket
 - c. All of it, if it is over \$500,000
 - d. None of it, if it is less than \$500,000

17. The purchaser of a property in a planned unit development will usually *NOT* receive
 - a. an interest in the unit owners' association.
 - b. a direct ownership interest in the common areas.
 - c. title to the land on which the unit is built.
 - d. a share in the control of the commonly-owned elements.