Real Estate Finance 27 Final Exam & Answer Key

1) For all practical purposes, an "Alienation Clause" is basically the same as a:
   a) Call Clause
   b) Acceleration Clause
   c) Due on Sale Clause
   d) Defeasance Clause

Answer is "c": A Due on Sale Clause - This means the loan is not assumable without lender's approval and that the lender can call the loan immediately due and payable in the event the owner sells the property or transfers title to the property.

2) When the lender determines the amount of money to loan to a borrower by using a percentage of the property's appraisal or sales price, they are trying to determine the:
   a) Loan-to-Value Ratio
   b) Interest rate for the loan
   c) Origination fees
   d) Borrower's ability to repay the loan

Answer is "a": Loan-to-Value Ratio - This ratio is figured by taking the amount of the loan and dividing it by the market value of the home.

3) An insurance policy that protects the lender when there is increased risk due to low down payment is known as:
   a) Junior Mortgage Insurance
   b) Standard Homeowner's Insurance
   c) Term Life Insurance for the borrower
   d) PMI – Private Mortgage Insurance

Answer is "d": Private Mortgage Insurance - a type of insurance that insures the lender in case the buyer defaults on the loan. The lender requires PMI when the buyer has a down payment less than 20% of the asking price of the home.

4) What are the two most common documents used in real estate financing?
   a) Mortgage and Subordination Agreement
   b) Promissory Note and either a Mortgage or a Deed of Trust
   c) Junior Mortgage and a Reduction Certificate
   d) Deed of Title and Deed of Trust

Answer is "b": Promissory Note and either a Mortgage or a Deed of Trust - the promissory note and a type of security instrument. The security instrument can be a mortgage or a deed of trust. Both are specific liens used to secure the note until the loan is paid in full.

5) In a title theory state, the mortgage or a deed of trust is still considered a:
   a) more important than in a Lien Theory state
   b) the Lender's statement of the balance remaining on the loan
   c) transfer of legal title to the lender
   d) more valuable than any of Donald Trump's Casino stocks

Answer is "c": transfer of legal title to the lender - This means the lender actually holds legal title to the property until the loan is paid in full. Legal title reverts to the owner/borrower, when the loan is repaid.

6) Lenders prefer a Deed of Trust over a mortgage because:
   a) it is easier for the Lender to foreclose if the borrower defaults
   b) the Deed of Trust contains fewer Latin terms to translate
   c) a third-party beneficiary has to be present when the buyer signs it
   d) the Lender can charge a higher rate of interest with a Deed of Trust

Answer is "a": it is easier for the Lender to foreclose if the borrower defaults – also, the period of time between notice of default and foreclosure is short, and there is no period for redemption.

7) A deed of Trust contains a "Trustee", whereas a mortgage does not. What is a Trustee?
   a) The same person as the Beneficiary
   b) An independent third-party that represents neither borrower nor lender
   c) Another term for mortgagee
   d) Both "a" and "c"

Answer is "b": An independent third-party that represents neither borrower nor lender - most generally, the trustee is the title company that holds the power of sale in case of a default. They also reconvey the property once the deed of trust has been paid in full.

8) When the loan is paid, the Promissory Note is marked "Paid in Full" and returned to the borrower along with:

   a) the master key to the locks on the house
   b) copies of the note that were filed in the Recorder's Office
   c) the original Agreement of Sale
   d) a recorded Reconveyance Deed

Answer is "d": a recorded Reconveyance Deed - a Reconveyance Deed is an official document from a mortgage holder releasing the debtor from the mortgage.

9) What is the purpose of an "Or More" Clause in a mortgage?
   a) It gives the Mortgagee the right to sell the property without judicial procedure
   b) It allows the borrower to make larger monthly payments if they want to
   c) It allows the Lender to raise the monthly payments without notice
   d) It allows for prepayment of the entire mortgage without penalty

Answer is "d": It allows for prepayment of the entire mortgage without penalty - Absence of this clause automatically creates a prepayment penalty. The clause should be placed in any contract after the payment amounts on a loan if the borrower has the right to prepay the loan.

10) Amortization is a method of repaying principle and interest of a loan through periodic payments ---

   a) over a specified length of time
   b) that the borrower can skip every now and then if they get in a financial bind
   c) that continually increase each year until the mortgage is paid in full
   d) all of the above

Answer is "a": over a specified period of time - An amortized loan makes it possible for the borrower to pay interest and principle in level payments.

11) A loan wherein the borrower pays the interest only on a weekly, monthly, or yearly basis is referred to as a:

a) Construction Loan
b) Private Mortgage Loan
c) Straight Loan
d) Seller Carry-Back Loan

<u>Answer is "c": Straight Loan</u> – and yes it is called an Interest Only Loan. Only the interest payments are made as stated, but at the end of the term, the full principle amount of the loan becomes due and must be paid in full.

12) A mortgage that covers two or more parcels of real estate as security at the same time is known as a:

a) Purchase Money Mortgage
b) Blanket Mortgage
c) Wrap-Around Mortgage
d) None of these

<u>Answer is "b": Blanket Mortgage</u> - This type of mortgage is often used when a buyer invests in several lots in a subdivision for the purpose of development.

13) Which of the following *<u>is</u>* *<u>not</u>* a type of "graduated mortgage?"

a) Lot Release Mortgage
b) Adjustable Rate Mortgage
c) Graduated Payment Mortgage
d) Growing Equity Mortgage

<u>Answer is "a": Lot Release Mortgage</u> – Unlike graduated mortgages, a Lot Release requires a payment of more than 100% of the value of the released parcel.

14) The loan that is available to seniors (age 62+) and is used to release the home equity in the property as one lump sum or multiple payments is called a:

a) Reverse Conventional Mortgage
b) Reverse Discount Deed
c) Reverse Mortgage
d) Reverse Deed of Trust

<u>Answer is "c": Reverse Mortgage</u> - The homeowner's obligation to repay the loan is deferred until the owner dies, the home is sold, or the owner leaves (*e.g.*, into aged care).

15) FHA, VA, and Conventional are the three main types of real estate loans. How is the Conventional Loan different from the other two?

a) FHA and VA Loans are only approved for farmers and veterans
b) Conventional Loans are not federally insured or guaranteed
c) Immigrants cannot apply for FHA and VA Loans
d) Conventional Loans never require a down payment

<u>Answer is "b": Conventional Loans are not federally insured or guaranteed</u> - Because there is not as much government regulation, the lender has more freedom to set lending policies that are subject only to the limitations of the lender's business charter and the laws of the state.

16) Fees that are charged by most lenders to increase their financial yield or profit on a loan are called:

a) Purchase Agreement fees

b) Loan Guarantee fees
c) Overpriced and unnecessary
d) Discount Points

Answer is “d”: Discount Points - Lenders charge interest to borrowers on the principal during the entire term of the loan, plus they can charge points on the face value of the loan, which is paid up front.

17) To be eligible for a VA loan, the veteran must have a certificate of eligibility. Eligible veterans include:

a) Persons in active duty for a minimum of 181 days
b) Honorably discharged veterans that served in certain war times
c) The unmarried spouse of a veteran whose death was service connected
d) All of the above

Answer is “d”: All of the above – Eligibility also includes the spouse of a veteran listed as missing in action or a prisoner of war for 90 or more days.

18) The rule of thumb is that a lender allows 25% of the buyer’s monthly income for the new loan payment. What percentage of income does FHA allow for the new loan payment and what percentage do they allow for the buyer’s debt ratio?

a) 29% for the new home loan and 41% for the debt ratio
b) 41% for the new home loan and 29% for the debt ratio
c) 29% for both
d) 41% for both

Answer is “a”: 29% for the new home loan and 41% for the debt ratio - Bankruptcies, repossessions, and foreclosures can affect the buyer’s ability to qualify. However, after a period of time, if the buyer has a good explanation and good credit since the problem, the lender may agree to accept the borrower.

19) The two entities that influence and control real estate financing are:

a) The Board of Realtors and the U.S. Senate
b) The MLS and Congress
c) The FDIC and the FSLIC
d) The Federal Reserve System and the United States Treasury

Answer is “d”: The Federal Reserve System and the United States Treasury - The “Fed”, as it is often referred to, also supervises Ginnie Mae, Freddie Mac, and Fannie Mae and enforces the Truth in Lending Act.

20) The agency of the U.S. Cabinet that has all responsibilities in all areas of national housing policies is called:

a) The Farmer’s Home Administration (or FHA)
b) The Federal Economic Department (or FED)
c) The Department of Housing and Urban Development (or HUD)
d) The Department of Alcohol, Tobacco, and Firearms (or ATF)

Answer is “c”: The Department of Housing and Urban Development - HUD provides grants and subsidy programs for various public housing urban renewal and rehabilitation projects, FHA insured loans and many, many other programs.

21) What act that Congress passed in 1989 created the Office of Thrift (OTS) Supervision and the Savings Association Insurance Fund (SAIF)?

a) The Federal Home Loan Bank Act
b) The Financial Institutions Reform, Recovery, and Enforcement Act
c) The FDIC and FSLIC Creation Act
d) The HUD Act

Answer is "b": The Financial Institutions Reform, Recovery, and Enforcement Act – The FIRREA created the OTS and SAIF to close the insolvent savings and loan associations and manage the remaining thrift industry, and the Resolution Trust Corporation (RTC) to dispose of insolvent savings and loan associations and the repossessed assets they held.

22) The various lending institutions where homebuyers go to borrow money to finance the purchase of a home are referred to as:

a) The Primary Market
b) The Secondary Market
c) The Real Estate Finance Market
d) The Farmer's Market

Answer is "a": The Primary Market - Even though there are some other types of lenders that make home loans, the practices of the major lenders have the greatest impact on real estate transactions, hence being called the Primary Market.

23) A REIT obtains money by selling shares, or certificates of ownership, in the trust to give the individual investors the funds to purchase real estate investments. What do the letters REIT stand for?

a) Real Estate Investment Trusts
b) Real Estate Internet Traditions
c) Real Estate Investment Terminology
d) Real Estate Intelligence Trajectory

Answer is "a": Real Estate Investment Trusts - A REIT must use at least 75 % of its assets to invest in real estate to obtain certain federal income tax exemptions.

24) The Secondary Market is made up of private investors and government agencies that buy and sell real estate mortgage loans. Which one of the following is not one of the three major agencies?

a) "Ginnie Mae"
b) "Annie's Fanny"
c) "Fannie Mae"
d) "Freddie Mac"

Answer is "b": "Annie's Fanny" – "Fannie Mae" refers to the Federal National Mortgage Association (FNMA), "Freddie Mac" refers to the Federal Home Loan Mortgage Corporation (FHLMC), and "Ginnie Mae" refers to the Government National Mortgage Association (GNMC).

25) The two primary disclosures that the Truth in Lending Act requires the lender to make to the loan applicant are the:

a) Down payment requirements and "Subject To" explanation
b) The date the payments are due each month and how to sign all documents
c) The annual percentage rate and the total finance charge
d) None of the above

Answer is “c”: The annual percentage rate and the total finance charge – these are considered the two main disclosures, however the main purpose of disclosure is to inform the applicant of the total cost of the loan, so that there are no surprises at the closing table.

26) There are several sources of loans in the Primary Market, but which one of these types of lenders are considered to be major sources for these loans?

a) Savings and Loans
b) Commercial and Savings Banks
c) Mortgage Companies
d) All of the above

Answer is “d”: All of the above – The Primary Market is actually made up of various lending institutions where homebuyers go to borrow money to finance the purchase of a home, whereas the Secondary Market is made up of private investors and government agencies that buy and sell real estate mortgage loans.

27) Home buyers are classified into four primary groups, namely the first-time homebuyer, buyers moving into a larger home, buyers moving into a smaller home, and:

a) Recreation homebuyers and retirees
b) House flippers
c) Investors seeking a tax shelter
d) All of the above

Answer is “a”: Recreation homebuyers and retirees – Although flipping houses has become popular of late, and investors would love to be able to buy a house as a tax shelter, these are not considered as one of the major categories of homebuyers.

28) Compared to buyers that are moving into larger or smaller homes, the first-time homebuyer tends to be a challenge because:

a) They may have difficulty coming up with a down payment
b) They may not have enough of an established credit history
c) They are uninformed about important matters concerning home buying
d) All of the above

Answer is “d”: All of the above – Answers “a” and “b” are usually not issues with homebuyers that are upsizing or downsizing, however first-time homebuyers tend to turn to the advice of friends and family, rather than letting the licensed agent assist them and educate them in the process.

29) Before the agent begins the search for a home for the prospective buyer, what are the first two questions that need to be answered?

a) How much money do they have and how good is their credit?
b) What is the buyer’s favorite color and do they want a pool?
c) What does the buyer want and need, and what can they afford?
d) None of the above

Answer is “c”: What does the buyer want and need and what can they afford? It does no good to begin a search for a home that the buyer wants and needs, if the buyer cannot qualify for a loan or other method of financing for that home.

30) A preliminary determination that often results from the use of a Buyer's Information Worksheet is:

a) What neighborhood the buyer should look for a home in
b) The buyer's income-to-debt ratio
c) The Loan-to-Value Ratio
d) A way for the buyer to come up with a down payment

Answer is "b": The buyer's income-to-debt ratio – Though it is only a preliminary determination, the form can help determine whether or not the buyer can qualify for a loan for the particular house they desire.

31) There may be times when the buyer's expectations exceed their ability to purchase, but this can sometimes be overcome by the helping the buyer prioritizing and:

a) The agent exercising some creativity
b) Having a wealthy relative to borrow money from
c) Realizing that they need to wait a few years to buy a home
d) By asking the real estate agent to carry the financing

Answer is "a": The agent exercising some creativity – The pre-qualifying process serves a number of purposes, but the main function of it is to assist the agent in determining what the buyer can afford and qualify for.

32) One of the most important benefits of buying versus either leasing or renting is the pride that comes with owning a home. What other advantages come with owning a home that the person does not have when they are leasing or renting from a landlord?

a) A reflection of the owner's self image
b) Freedom to change or alter the property
c) Tax advantages
d) All of these

Answer is "d": All of these – Pride, privacy and freedom are probably the biggest benefits of owning a home, but there other advantages.

33) The total amount of the difference between a property's current value and the amount of encumbrances against it is called:

a) Equity
b) Capital gain
c) Appreciation
d) Liquidity

Answer is "a": Equity - Equity is the difference between the market value of your home and the amount you owe to the lender. Net equity is different from gross equity. Net equity is the gross equity less the costs of selling the home.

34) The value of real estate usually appreciates as a result of:

a) The prime lending rate
b) How good the schools are in the neighborhood
c) The length of time to commute to one's work
d) Inflation and demand

Answer is "d": Inflation and demand - When property in a high demand area becomes scarce, the remaining properties will normally increase in price.

35) Real Estate syndicates are usually formed for the purpose of investing in a particular real estate project. These syndicates can be formed as either corporations, LLC's, or:

a) Private lenders
b) Partnerships
c) Politicians
d) Government agencies

Answer is "b": Partnerships – When thinking of real estate syndicates, remember that you are thinking about business entities, hence the answer being Partnerships versus one of the other three answers.

36) The desired percentage rate of return that an investor wants to make on their investment is known as the:

a) Gross profit on investment
b) Capital gains
c) Capitalization rate
d) Liquid equity

Answer is "c": Capitalization rate - The formula for determining the property's value is Annual Net Income divided by the (desired) Capitalization Rate = Value.

37) A homeowner is allowed to have only one primary residence. For tax classification purposes the IRS classifies this as the homeowner's:

a) Principle residence
b) Personal use property
c) Taxable living quarters
d) Investment property

Answer is "a": Principle residence - Homeowners that fall into this classification can deduct property taxes and uninsured casualty losses.

38) Capital improvements that add to the value of the property or extend the property's useful life are referred to as:

a) Capital gains
b) Investment gains
c) Principle expenditures
d) Capital expenditures

Answer is "d": Capital expenditures - This could be an assessment for streets, or improvements such as adding bathrooms, bedrooms, or remodeling the kitchen. Normal maintenance and repairs do not add value or extend the useful life and cannot be added to the basis.

39) There are three stages involved in the foreclosure process. Which one of these is not one of them?

a) Foreclosure
b) Pre-foreclosure
c) Post-foreclosure
d) Strict foreclosure

Answer is “d”: Strict foreclosure – The actual foreclosure stage involves the 90-day filing period and a 21-day publication period. Pre-foreclosure precedes this stage while post foreclosure follows it. Under strict foreclosure, when a mortgagor defaults, a court orders the mortgagor to pay the mortgage within a certain period of time.

40) When a homeowner negotiates a payoff with the lender for less than what is owed on the loan due to economic hardship, this is referred to as a:

a) Short sale
b) “Due on Sale” clause
c) Loss mitigation
d) Bailout sale

Answer is “a”: Short sale – the concept of a short sale has become a way for homeowners to avoid foreclosure proceedings.

41) There are four criteria that a lender uses when determining if the sale of the property qualifies for short sales status. Which of the following is not one of those criteria?

a) The seller has no assets
b) The mortgage is in default
c) The neighbors are growing marijuana on their property
d) The market value of the house has dropped

Answer is “c”: The neighbors are growing marijuana on their property – lenders are very strict in their decision to approve a property for short sale. The other criteria is that the seller has proven to the lender that they are experiencing financial hardship.

42) The option (or process) available to a struggling homeowner wherein they can prevent foreclosure proceedings from happening is known as:

a) Loan resolution
b) Loss mitigation
c) Lot resolution
d) Loan mitigation

Answer is “b”: Loss mitigation – the concept resulted from a collaborative effort conducted between the federal government and the mortgage industry for the purpose of assisting homeowners who were facing the possibility of losing their homes.

43) There are primarily two types of foreclosure proceedings. The most common is foreclosure by judicial sale. The other type which does not involve the intervention of the courts is known as:

a) Foreclosure by power of sale
b) Strict foreclosure
c) Third-party foreclosure
d) None of these

Answer is “a”: Foreclosure by power of sale – this is also referred to as non-judicial foreclosure. In this method, the lender or mortgage holder sells the property without the involvement of the courts. There is no lawsuit or court action required to authorize the trustee to sell the property if the Trustor defaults.

44) Considered a “legal threat”, this document is issued to the homeowner when they have become 90 days (or more) delinquent in their payments. What is its proper legal name?

a) Due on Sale Notice
b) Notice of Default

c) Loss Mitigation Invitation
d) Eviction Notice

Answer is "b": Notice of Default – the notice threatens to do three things --- 1) sell the homeowner's property, 2) terminate all of the homeowner's rights to the property, and 3) evict the homeowner from the premises.

45) When the property has moved into the post-foreclosure stage, it usually means that it is either in the hands of an investor, a new homeowner, or the lender's REO Department. What does REO stand for?

a) Rearranged Equity Option
b) Ronald Estoppel's Organization
c) Real Estate Owned (by lender) Department
d) The Speedwagon – a very popular rock and roll band in the 70's and 80's

Answer is "c": Real Estate Owned (by lender) Department – An REO means that the lender has reclaimed the property and has re-established their control over it. It is also an indication that the lender made a bad decision, so they are usually willing to negotiate on these properties to remove them from the books.

46) The Notice of Default (NOD) is the document that is filed with non-judicial foreclosures. What is the name of the document that gets filed when it is a judicial foreclosure?

a) Notice of Judicial Default
b) Due on Sale Notice
c) Intention to Repossess Notice
d) Lis Pendens (which translates as "Suit Pending")

Answer is "d": Lis Pendens - This may refer to any pending lawsuit or to a specific situation with a public notice of litigation that has been recorded in the same location where the title of real property has been recorded.

47) According to Gwen Lopez, owner and operator of FreeForeclosureBlog.com, there are five excellent tips for locating foreclosure properties for investors. Which of these is one of them?

a) Concentrate on homes that have no photos
b) Make sure the property is still available
c) Search county tax resources online
d) All of the above

Answer is"d": All of the above – In addition to these, Gwen also advises that a person not get discouraged and that they search in their local area.

48) Despite the financial advantages for the investor when it comes to buying foreclosed properties, what is one of the disadvantages that they should beware of when buying these types of properties?

a) Someone is still living in the home
b) The bank hangs on to some properties for their favorite REIT
c) There is no listing of the property in the County Recorder's Office
d) The house is painted a color that the investor doesn't like

Answer is "a": Someone is still living in the home – other disadvantages are the omission of inspections if the property is being sold at auction, it is a non-owner occupied home, or the home is purchased "As Is" and may be in such disrepair as to make it an unwise investment.

49) The concept of "creative financing" involves ways to purchase a home that may or may not involve a traditional form of lending. Which of the following is not a form of creative financing?

a) Hard money loans
b) Conventional assumable loan
c) Private mortgage
d) Simultaneous closing

Answer is "b": Conventional assumable loan – the key word is "conventional". Creative financing methods are anything but conventional, and some are ill-advisable methods for the buyer to pursue.

50) What does NINA stand for?

a) No income / no asset
b) Not interested in negotiating anymore
c) A hurricane that ravaged the Atlantic coast in the 1970's
d) Normal intelligent negotiating abilities

Answer is "a": No income / no asset - No income/no asset verification – a form of no-doc loan - these loans require the least amount of documentation.

51) The process wherein the future homeowner contributes to the construction or improvements of the home and thus accruing equity in the home is referred to as:

a) Future Equity
b) False Equity
c) Sweat Equity
d) Real Equity

Answer is "c": Sweat Equity – this terminology is used to describe the contribution that the future homeowner makes to a property by contributing their time and effort. It is contrasted with financial equity which is the money contributed towards the project.

52) This document serves a security agreement between the owner of a property and a person who wants to buy the property for an agreed-upon purchase price. What is its proper name?

a) Contract for Deed
b) Installment Sale Agreement
c) Land Contract
d) All of these

Answer is "d": All of these – though it is mainly called a Land Contract, it is oftentimes referred to as either of the other two. The vendor agrees to sell the property to the vendee by financing the purchase themselves. It should be noted that the vendor retains the legal title, but the vendee receives what is called equitable title.

53) This particular way of financing a property purchase involves the buyer making monthly payments to the seller plus an additional payment that covers the balance of the buyer's purchase price of the home. What is this called?

a) Wrap-Around Contract
b) Simultaneous Closing
c) Private Mortgage

d) 1031 Exchange

Answer is “a”: Wrap-Around Contract - The wrap-around contract is an extremely risky arrangement for the seller due primarily to all the liability factors involved. Until a lender lets the seller know that the payments are late, he has no way of knowing if that’s the case or not.

54) Simultaneous closings involve a seller, a buyer, and a third-party that is referred to as a note buyer. When a simultaneous closing transpires, what two transactions take place?

a) The County Assessor transaction and the property tax transaction
b) The real estate transaction and the note purchase transaction
c) The lender mitigation transaction and the short sale transaction
d) The Vendee transaction and the Vendor transaction

Answer is “b”: The real estate transaction and the note purchase transaction - This type of financing is a real estate seller’s technique wherein the mortgage created by the seller is *simultaneously sold to a note buyer* at the time of closing.

55) In a Lease Option or a Lease Purchase, what are the names of the two primary parties involved?

a) The tenant (lessee) and the landlord (lessor)
b) The note buyer and the IRS agent
c) The Lender and the County Recorder
d) Only Manny and Moe showed up because Jack got sick. Otherwise there would have been a third party involved.

Answer is “a”: The tenant (lessee) and the landlord (lessor) – a lender is not characteristically used in this scenario as the seller carries the financing. The buyer will often find this a viable option for purchasing a home when their credit history prevents them for qualifying for a loan through a standard lender.

56) What is the primary difference between a Lease Option and a Lease Purchase?

a) In a Lease Purchase, the option money is usually refundable
b) In a Lease Option, another interested party can buy the property
c) In a Lease Purchase, the option money is always refundable
d) In a Lease Option, the tenant can purchase the property or walk away from it

Answer is “d”: In a Lease Option, the tenant can purchase the property or walk away from it - the tenant pays rent to the landlord, and in exchange is permitted to occupy the property. At the end of the contract, the tenant has the option to purchase the property outright.

57) An agreement in which the financing is provided by the property owner along with an assumed mortgage is referred to as:

a) Seller Carry-Back
b) Wrap-Around Contract
c) Private Mortgage
d) Lot Release Option

Answer is “a”: Seller Carry-Back - Seller carry-backs can be in the form of a mortgage, trust deed, land contract, or even a lease purchase. Most carry-backs are secured by a promissory note.

58) What does the term “no-doc” refer to?

a) No Documented Leverage
b) No Documentation Loans

c) No Document Lease
d) No doctor in the house

Answer is “b”: No Documentation Loans - A no documentation loan is one in which the borrower supplies a minimal amount of information to the lender. In other words, the no-doc loan is one in which the borrower, by virtue of the higher interest rate, is paying for the ease of application and privacy issues.

59) Of the three types of no-doc/low-doc loans, which one often is referred to as a “don’t ask, don’t tell” type of loan?

a) Stated Income Loans
b) NINA Loans
c) No-Ratio Loans
d) None of these

Answer is “c”: No-Ratio Loans - The lender doesn't ask how much the borrower earns, and the borrower doesn't tell. They’re called no-ratio loans because the lender doesn’t compute the borrower’s debt-to-income ratio.

60) When the buyer purchases the property that the seller wants to acquire, and then the buyer exchanges it with the seller this is referred to as a:

a) 1103 Exchange
b) 3101 Exchange
c) 1013 Exchange
d) 1031 Exchange

Answer is “d”: 1031 Exchange - The seller disposes of his property and gets a replacement property without paying taxes, the buyer parts with his money and gets the property he wants, and the third party simply sells his property. Basically, they enter with the properties they have, and they leave with the cash or the properties that they want.

61) Principle loan times percentage of interest times duration of the loan is the formula for calculating _______________.

a) Loan origination fees
b) Document processing fees
c) The LTV factor
d) Amount of Interest on the loan

Answer is “d”: Interest – or simply put, PART x RATE x TIME = INTEREST

62) % x VB + 100% of VB = VA is the formula for determining what:

a) How we determine Veteran’s Benefits from the Veteran’s Association
b) The Value Before and the Value After
c) The Value of the Interest before and after the sale of the property
d) None of these

Answer is “b”: The Value Before and the Value After – it helps to determine the value of the property after realizing the profit on the sale of it.

63) The desired rate of return multiplied by the property’s value in order to calculate what the potential income of the property could be is a way to determine the:

a) The Capital Gains factor
b) The potential Net Income of the property
c) The Cap Rate
d) The percentage of expenses on the sale of the property

Answer is "c": The Cap Rate – short for Capitalization Rate or the desired percentage of return that the investor is looking for. The longer version of the formula can be written as % Rate x Value = Income, while the shorter version is % R x V = I.

64) To figure out the share of each party's expenses "per diem" according to the period of time that each will or has already benefited from the total expenses, you would use what formula?

a) Pro-Ration Formula
b) Net Income Formula
c) Property Appreciation Formula
d) Expense Determination Formula

Answer is "a": Pro-Ration Formula - This is usually required to figure costs for the real estate closing. Cost of insurance and taxes are pro-rated according to the amount paid and the amount left by the closing date.

65) Appreciation occurs when a property rises in value; depreciation occurs when the property has a loss in value. What does an appraiser use when determining the appraised value of the property?

a) Appreciation
b) Depreciation
c) Both appreciation and depreciation
d) Neither, the appraiser uses a calculator

Answer is "d": Neither, the appraiser uses a calculator – just thought that a little humor with a trick question couldn't hurt. Although if you did answer "a", that answer could be considered correct as well.

66) Amortized loans are repaid with payments that include:
a) Both interest and principle
b) Interest only
c) Principle only
d) Cash, checks, or credit cards

Answer is "a": Both interest and principle - In the beginning, the payments are nearly all interest and very little is applied to the principle.

67) The monthly payment times the number of months of the loan equals the total of principle and interest combined. Subtracting the principle balance would be how you determine:
a) Net profit on the investment
b) The value of the property
c) Total interest paid
d) The percentage of interest paid

Answer is "C": Total interest paid – the formula is normally written in the following manner --- MP x N = PI - PB = Interest paid.

68) Simple interest is the interest paid only on the principle amount of the loan, whereas compound interest is where the buyer is paying interest on the principle and interest on:

a) The accumulated unpaid principle
b) The accumulated unpaid interest
c) Both “a” and “b”
d) Neither “a” nor “b”

Answer is “b”: The accumulated unpaid interest – for example, the compound interest on a $112,000 loan with a 9% interest rate would be $112,000 x .09 = $10,080. But on the second year, it would be $112,000 PLUS $10,080 which equals $122,080 x 9%= $10,987.20 and so on in the ensuing years.

69) A full disclosure of the property’s condition including the advantages and disadvantages, without duress, within a reasonable marketing time is called:

a) Highest and best use of the property
b) An arm’s length transaction
c) Section OU812 of the Truth in Lending Act
d) Creative Disclosure Marketing

Answer is “b”: An arm’s length transaction - The Arm's Length Principle (ALP) is the condition or the fact that the parties to a transaction are independent and on an equal footing.

70) Property has many types of values. The appraiser’s job is to determine the purpose and actual value of the property, without “emotional” influences. What are considered “emotional” influences?

a) The aesthetics of the property that brings a tear to the eye of the appraiser
b) How much the buyer begs and cries for as low an appraisal as possible
c) The lender’s emotional attachment because it was his first loan approval
d) The needs and desires of the seller, or their memories of the property

Answer is “d”: The needs and desires of the seller or their memories of the property - An appraisal is an educated opinion and explanation of a property’s value based on many different factors and approaches, however, emotional influences cannot be allowed to influence the appraiser’s evaluation.

71) What is the federal law that requires that appraisals used in federally-related transactions meet standards set by the Appraisal Foundation and must be performed by a person who is licensed or certified by the state?

a) The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)
b) The Truth in Lending Act
c) The Appraiser’s Professional Conduct Act
d) The Federal Emergency Management

Answer is “a”: The Financial Institutions Reform, Recovery, and Enforcement Act - The Uniform Standards of Professional Appraisal Practice allows only state licensed or certified appraisers to prepare appraisals used in "federally related" loan transactions. The majority of real estate loans are federally related, including loans made by federally regulated or insured banks, or savings and loan associations.

72) An estimate of value of a property in order to determine a fair listing price is referred to as a CMA. What is a CMA?

a) A Certified Medical Assistant
b) The Common Margin Actuation
c) A Competitive Market Analysis
d) The Country Music Awards

Answer is "c": A Competitive Market Analysis - An appraisal is usually ordered after the actual sale of the property, but a real estate agent's expert advice is valuable and important to sellers to determine a realistic listing price. The CMA is considered the real estate agent's opinion of value.

73) Market Price is the price a person paid for the property whatever the circumstances. What is Market Value?
a) Subjective value of a property according to the original price
b) Objective value of a property based on data
c) What the seller originally paid for the property
d) The going rate for a share of stock on the NYSE

Answer is "b": Objective value of a property based on data – the data of course being that of the appraiser and their calculations. Market value is also known as exchange value and is a more reliable type of value.

74) When two properties are similar, the lower priced property will be in greater demand. The buyer will not pay more than the lowest priced property that is equally desirable as a substitute if the terms and conditions of the purchase price are about the same. This is the Principle of:
a) Substantiation
b) Subsidization
c) Sublimination
d) Substitution

Answer is "d": Substitution - An example of the principle of substitution would occur when a person sees a home that they like listed at $150,000. Then they see two other homes within a couple of blocks of the first one that has the identical amenities and are priced at $135,000 each. Chances are, they will by one of the other homes.

75) The principles of supply and demand for real estate have the most dramatic affect on the value of a specific piece of property. When the supply increases and the demand decreases it is known as:
a) A buyer's market and the values decrease
b) A seller's market and the values increase
c) A high demand market
d) A low supply market

Answer is "a": Buyer's market and values decrease – a seller's market exists and values increase when the demand increases and the supply decreases.

76) The appraisal method used for evaluating vacant land is called:
a) The Market Data approach
b) The Replacement and Reproduction approach
c) The Cost or Replacement Cost Approach
d) The Vacant Land Appraisal approach

Answer is "c": The Cost or Replacement Cost approach - This method could be used in high demand areas where there is an inadequate supply of new homes, or where there are few or no available building lots.

77) Replacement Value is the estimate of the current cost to build another building, the way it was originally constructed, at the current price of the labor, and using the same materials. What is Reproduction Value?

a) Cost of improving vacant land
b) The estimated cost of building a replica
c) The estimate that takes place before replacing a building
d) None of these

Answer is "b": The estimated cost of building a replica - Reproduction cost is often used when the subject has "historical" or "cultural value" or is an older structure. The cost to reproduce a structure can be prohibitive, and usually does not reflect the current market value.

78) The difference in value between the current price of an item and the depreciated value of the item as of a certain date is known as:

a) Devalued Appreciation
b) Devalued Depreciation
c) Accrued Appreciation
d) Accrued Depreciation

Answer is "d": Accrued Depreciation - This means that if an apartment building is valued at $300,000 today, and it is compared to a four year old apartment building, the four year old apartment building would have used up a percentage of its useful life and that difference would be the amount of accrued depreciation.

Chapter 10 Exam

79) What type of notice is implied rather than verbal or written because the person could have known, or should have known, under reasonable efforts?

a) Actual notice
b) Introductory notice
c) Constructive notice
d) Default notice

Answer is "c": Constructive notice - Constructive notice is the notice given by recording an instrument.

80) A detailed statement of all debits and credits showing the amount the buyer will need to pay to close and the amount that the seller will receive)or have to pay) at closing is called:

a) Settlement statement
b) Uniform settlement statement
c) Reserve account statement
d) Actuarial statement

Answer is "a": Settlement statement - As a real estate agent or broker, it's recommended that you understand the HUD-1 Settlement Statement thoroughly. It's not so that you can do the math for the client, but at least you'll be able to explain how it was done, or where these numbers come from.

81) What set of instructions tell the closing agent what conditions must be met prior to closing?

a) Closing instructions

b) Examination instructions
c) Title instructions
d) Escrow instructions

Answer is “d”: Escrow instructions - The closing agent makes sure that inspections, surveys, contingencies and all other conditions of the sales agreement are met by the specified date at the specific place.

82) What insurance policy guarantees to satisfy any covered claims against previously undetected title defects?

a) Escrow insurance policy
b) Title insurance policy
c) Lender’s insurance policy
d) Settlement insurance policy

Answer is “b”: Title insurance policy - When undetected defects are discovered, the title company has the choice to either *correct* the defect or reimburse the insured up to the face amount of the policy.

83) Laws that disallow claims after long periods of time are referred to as:

a) Chain of title acts
b) Recording acts
c) Marketable title acts
d) None of these

Answer is “c”: Marketable title acts - The number of years required for a property to reach marketable title status varies with each state, but is usually between twenty and forty-four years. These laws are based on the assumption that if no claim was made during a long period of time a marketable title should be issued.

84) A complete record of all recorded documents such as conveyances, liens, and encumbrances that affect the property is referred to as:

a) Chain of title
b) Marketable title
c) Guarantee of title
d) Recording of title

Answer is “a”: Chain of title - The chain of title will also show “clouds” on the title, such as claims of heirs, quit claim deeds, and other interests that may restrict the ownership of the property.

85) When a Deed of Trust has been paid in full, what document should immediately be filed?

a) The deed of trust release form
b) The uniform commercial release form
c) The “pink slip” on the original loan
d) The deed of release and reconveyance

Answer is “d”: The deed of release and reconveyance - This is often overlooked and many times even though the deed of trust is paid, the title search will show no such recording.

86) Which congressional act provides that the buyer and seller may choose the escrow agent?

a) The Uniform Settlement Statement Act (USSA)

b) The Real Estate Settlement Procedures Act (RESPA)
c) The Truth in Lending Act (TILA)
d) The Constructive Realty Anticipation Program (CRAP)

Answer is “b”: The Real Estate Settlement Procedures Act - The final step is the presentation of the closing or settlement statement. This form shows the buyer and seller all charges and credits.

87. Maximum limits of increase OR decrease in interest, payments, and time periods are called:

a. Caps
b. Points
c. Margin
d. Origination
Answer A. Maximum limits of increase OR decrease in interest, payments, and time periods are called caps.