

**Multiple Choice**

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_ 1. All of the following may be used for setting ARM interest rates EXCEPT
  - a. one-year U.S. Treasury securities.
  - b. six-month Treasury bills.
  - c. cost of funds to thrift institutions.
  - d. GDP (Gross Domestic Product).
- \_\_\_ 2. In order to make adjustable rate mortgage loans more attractive to borrowers, lenders offer
  - a. lower initial interest rates.
  - b. gifts such as appliances, trips, etc.
  - c. lower insurance rates.
  - d. lower down payments.
- \_\_\_ 3. What feature in an adjustable rate mortgage protects the borrower against very large monthly payment increases?
  - a. Rate cap
  - b. Adjustment period
  - c. Payment cap
  - d. Margin
- \_\_\_ 4. A new home developer who is including appliances with the sale of each house most probably would assist the buyer in obtaining a
  - a. blanket mortgage.
  - b. shared appreciation mortgage.
  - c. equity sharing mortgage.
  - d. package mortgage.
- \_\_\_ 5. A builder bought all 20 lots in a subdivision from the developer, who carried most of the purchase price on one loan. To sell the lots, he must include a
  - a. reverse loan clause.
  - b. sale-lease back clause.
  - c. package mortgage clause.
  - d. release clause.
- \_\_\_ 6. When considering a ARM loan, the lender must explain to the borrower, in writing, the
  - a. worst-case scenario.
  - b. best-case scenario.
  - c. average-case scenario.
  - d. respective credit report.
- \_\_\_ 7. Which of the following involves the greatest risk to a lender?
  - a. First mortgage
  - b. FHA loan
  - c. Construction loan
  - d. VA loan
- \_\_\_ 8. Construction loans are
  - a. long term, low risk.
  - b. long term, high risk.
  - c. short term, high risk.
  - d. short term, low risk.

- \_\_\_ 9. Equity sharing is based on the concept of someone who has assets sharing those assets in exchange for
  - a. a share of the ownership.
  - b. tax benefits.
  - c. lease preference.
  - d. equitable partition.
- \_\_\_ 10. A blended-rate loan arrangement is designed to
  - a. raise the rate of interest to the buyer.
  - b. lower the sales price of the property.
  - c. attract buyers who are discouraged by high interest rates.
  - d. pay off a loan sooner.
- \_\_\_ 11. When an existing loan at a low interest rate is refinanced by a new loan at an interest rate between the current market rate and the rate of the old loan, the result is a
  - a. combined rate.
  - b. blended loan.
  - c. wraparound loan.
  - d. merged loan.
- \_\_\_ 12. The phrase “taking back paper” applies to
  - a. a cash sale.
  - b. conventional loans.
  - c. VA loans.
  - d. seller financing.
- \_\_\_ 13. A mortgage taken by a seller from the buyer in part payment of the purchase price of real estate is known as
  - a. purchase money mortgage.
  - b. a conflict of interest.
  - c. wrap-around mortgage.
  - d. a second trust deed.
- \_\_\_ 14. An individual who is contemplating the purchase of a mortgage as an investment should have
  - a. the property appraised.
  - b. a credit check made on the borrower.
  - c. the title searched.
  - d. all of the above.
- \_\_\_ 15. One of the main differences between a land sales contract and a purchase money mortgage is
  - a. the passing of title.
  - b. interest charged.
  - c. time between payments.
  - d. the term of the loan.
- \_\_\_ 16. When should a purchase money mortgage properly be recorded?
  - a. Before the deed
  - b. After the deed
  - c. At the same moment as the deed
  - d. Upon full payment
- \_\_\_ 17. For a successful wraparound, it is necessary to have an existing mortgage with
  - a. a below-market interest rate.
  - b. a due-on-sale clause.
  - c. an above market interest rate.
  - d. an alienation clause.

- \_\_\_ 18. A contract for deed on residential property
  - a. allows transfer of title to the purchaser at the inception of the mortgage.
  - b. transfers title to the purchasers at the fulfillment of the conditions of the mortgage.
  - c. does not provide for transfer of title.
  - d. requires the owner to occupy the property.
- \_\_\_ 19. A company wishing to raise capital by selling its real estate but still remaining as the occupant of the property would enter into
  - a. a sale and lease-back.
  - b. an option agreement.
  - c. an equity mortgage.
  - d. a contract for deed.
- \_\_\_ 20. ARM loans with teaser rates are avoided by
  - a. mortgage insurers.
  - b. secondary market buyers.
  - c. both a and b.
  - d. neither a nor b.

**True/False**

*Indicate whether the sentence or statement is true or false.*

- \_\_\_ 21. The benefit of an ARM is that ARMs carry an initial interest rate that is lower than the interest rate on a fixed-rate mortgage of similar maturity.
- \_\_\_ 22. The most popular index is the local bank prime rate.
- \_\_\_ 23. By far the most common adjustment period in an ARM is six months.
- \_\_\_ 24. A payment cap leaves open the amount the borrower's monthly payment can increase in any one year.
- \_\_\_ 25. The objective of a graduated payment mortgage is to help borrowers pay off their loans more rapidly.
- \_\_\_ 26. Equity sharing provides that in return for providing financing, the lender wants to share in some of the benefits normally reserved for the equity holder.
- \_\_\_ 27. "Rich uncle" financing is a variation of equity sharing.
- \_\_\_ 28. Equity mortgages are typically first lien mortgages that are used to tap the increase in equity resulting from rising home prices and first loan principal reductions.
- \_\_\_ 29. Some real estate agents and lenders refer to a loan that is carried back by a seller as a purchase money mortgage.
- \_\_\_ 30. With a purchase made by an installment contract or land contract title immediately passes to the purchaser.