Real Estate Finance and Investments 15th edition Brueggeman Test Bank

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CHAPTER 2
Real Estate Financing: Notes and Mortgages

TRUE/FALSE

1. A mortgage is the same thing as a note. (F)

2. A non-recourse loan is one in which the borrower is personally liable for payment of all amounts due under the terms of the note. (F)

3. Prepayment of a loan without penalty is a right of all borrowers. (F)

4. A second mortgage is a junior lien mortgage that is sometime used to bridge the gap between the price of a property and the sum of the first mortgage and down payment. (T)

5. A remainder cannot be mortgaged. (F)

6. A fee simple estates is a type of freehold estate. (T)

7. A clause which specifies that the mortgagor will pay all property taxes and other charges assessed against the property, even if theses charges have priority over the mortgage is typically included in a mortgage. (T)

8. A clause which specifies that the mortgagee will obtain and maintain property insurance is typically included in a mortgage. (F)

9. Under lien theory, title and the right to possession pass from the mortgagor to the mortgagee when the mortgage is executed. (F)

10. A due on sale clause which specifies that the mortgage can accelerate the debt if the property is sold without the mortgagee's permissions is a typical clause in a mortgage document. (T)

11. It is a federal law that a mortgage must be recorded to be valid. (F)

12. A mortgage default can result from failure to pay property taxes. (T)

13. A technical default can result from failure to keep the property in repair. (T)

14. When a purchaser takes a property "subject to" an existing mortgage, the purchaser becomes personally liable for repaying the debt. (F)

15. When a deed is given in lieu of foreclosure of the mortgage, the mortgagor no longer has an obligation to pay the mortgage note. (T)

16. Junior liens are eliminated by a voluntary conveyance of a property to the mortgagee. (F)

17. If a property encumbered by a mortgage is sold at a foreclosure sale for an amount less than the value of the mortgage, the mortgagor is not obligated to pay the mortgagee the remaining balance. (F)

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18. A purchaser at a tax sale receives a deed to the property at the time of the sale. (F)

19. The process of confirming a plan of reorganization under Chapter 11, even if one or more creditor classes dissent, is known as a "cramdown." (T)

20. If a debtor, under Chapter 7 bankruptcy, is not behind on his mortgage payments, he does not have the give up the property. (T)

21. Unless stated otherwise, the borrower is personally liable for payment of all amounts due under the terms of the note. (T)

MULTIPLE CHOICE

22. A loan in which the borrower arranges in advance with a total amount that will be advanced in stages, such as a construction loan is said to have which type of mortgage loan: (C)

    (A) Assumption
    (B) Non-recourse
    (C) Open-end
    (D) Subordination

23. A "short sale" of real estate is: (C)

    (A) A sale that closes in less than 30 days
    (B) The sale of a house by someone who is not the owner; it is a way to profit from an anticipated decline in real estate prices
    (C) A sale in which the proceeds from the sale are less than the balance owed on the loan secured by the property sold
    (D) A sale in which the balance owed on the loan secured by the property sold is less than the proceeds from the sale

24. Which of the following situations is NOT a common cause for the use of a purchase-money mortgage? (D)

    (A) The buyer cannot come up with the down payment needed to qualify for a mortgage
    (B) The seller wants to receive the gain from the sale in installments
    (C) Third-party mortgage financing is too expensive of unavailable
    (D) The seller desires to artificially raise the price of the property by receiving a higher-than-market interest rate

25. Which of the following is NOT a minimum mortgage requirement? (C)

    (A) Description of the property
    (B) Covenant of warranty
    (C) Prepayment clause
    (D) Covenant of seizing

26. A mortgage is BEST defined as a legal document that: (B)

    (A) Creates an obligation to repay a loan under specific terms

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(B) Names real estate as the security or collateral for the repayment of a loan
(C) Defines a possessory interest in real estate
(D) Conveys ownership of a property to its purchaser

27. Which of the following solutions is LEAST likely to be acceptable to a mortgagee when discussing alternatives to foreclosing a property? (D)

(A) Permanently extending the amortization period
(B) Finding someone else to assume the mortgage
(C) Providing a temporary grace period during which principal and interest are not paid
(D) Permanently reducing the interest rate

28. Which of the following terms refers to an owner's right to redeem a property after foreclosure? (B)

(A) Equity of redemption
(B) Statutory redemption
(C) Attachment
(D) Execution

29. In jurisdiction where a deed of trust is used to finance real estate, there are three parties to the loan secured by the deed of trust. Which of the following is NOT one of those three parties? (D)

(A) Borrower
(B) Trustee
(C) Holder of the note
(D) Grantor

30. A senior mortgage holder is owed a mortgage balance of $140,000 and brings a foreclosure suit which includes all junior claimants in the suit. If the senior mortgage holder purchases the property for $140,000 at the foreclosure sale, what happens to the claim of the junior claimants? (B)

(A) The liens of the junior claimants are unaffected and the debt is due upon sale
(B) The liens of the junior claimants are extinguished, but the debt owed to the junior claimants is unaffected
(C) The liens of the junior claimants and the debt owed to them are extinguished
(D) The liens of the junior claimants are unaffected, but the debt owed to them is extinguished

31. A property is encumbered as follows: (A)

First mortgage, A: $250,000
Second mortgage, B: $40,000
Third mortgage, C: $10,000

How much can mortgagee B pay for the property at a foreclosure sale without having to raise additional funds?

(A) $290,000

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(B) $40,000
(C) $300,000
(D) $50,000

32. Which of the following types of bankruptcy is filed with the end result of liquidating the debtor's assets? (A)

(A) Chapter 7
(B) Chapter 11
(C) Chapter 13
(D) Chapter 17

33. Which of the following types of bankruptcy is available to a business to reorganize and rehabilitate the debtor? (B)

(A) Chapter 7
(B) Chapter 11
(C) Chapter 13
(D) Chapter 17

34. Which of the following terms refers to the prohibition of the commencement or continuation of collection proceedings during a bankruptcy proceeding? (C)

(A) Preferential transfer
(B) Deficiency judgment
(C) Automatic stay
(D) Extension

35. A mortgage agreement provides the lender with _____ interests. (B)

(A) Unsecured
(B) Secured
(C) Nonpossesory
(D) Possesory

36. What is usually executed at the same time as a mortgage and creates the obligation to repay the loan in accordance with its terms? (D)

(A) Recording acts
(B) Ownership interests
(C) Method of payment
(D) Promissory note

37. The Acceleration Clause says notice of all, but which of the following must be given to the mortgager? (A)

(A) Acceleration of debt secured by the mortgage has taken place because of default
(B) Action required to cure default
(C) Time by which default must be cured
(D) Default

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38. Which of the following is NOT an alternative to foreclosure? (C)

(A) Restructuring the mortgage loan
(B) Transfer of the mortgage to a new owner
(C) Redemption
(D) Prepackaged bankruptcy

39. Which of the following default is LEAST often used for foreclosure? (D)

(A) Failure to fulfill financial obligation
(B) Failure to pay taxes
(C) Failure to pay insurance premiums when due
(D) Failure to keep the security in repair

40. Which of the following statements is FALSE regarding foreclosure? (B)

(A) In judicial foreclosure, property subject to attachment and execution is limited to the mortgaged property
(B) If the sale of the mortgaged property realizes a price above the claims of the mortgage and expense of the sale, the balance goes to the mortgagor
(C) Redemption can be accomplished by paying 95% of the debt, interest and costs due to mortgage
(D) All of the above

41. When is seller financing NOT used? (C)

(A) The seller desires to take advantage of the installment method of reporting the gain from sale
(B) The buyer does not qualify for long term mortgage credit because of low down payment or difficulty meeting monthly payments
(C) Third-party mortgage financing is less expensive or easily available
(D) The seller desires to artificially raise the price of the property by offering a lower-than-market interest rate on the mortgage

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