

## Chapter 9

### Mortgage Markets

1. Federally insured mortgages guarantee:
  - A) loan repayment to the lending financial institution.
  - B) that the interest rate will not increase during the life of the mortgage.
  - C) the lending financial institution a selling price for the mortgage in the secondary market.
  - D) all of these.

ANSWER: A

2. At a given point in time, the interest rate offered on a new fixed-rate mortgage is typically \_\_\_\_\_ the initial interest rate offered on a new adjustable-rate mortgage.
  - A) below
  - B) above
  - C) equal to
  - D) none of these

ANSWER: B

3. An institution that originates and holds a fixed-rate mortgage is adversely affected by \_\_\_\_\_ interest rates; the borrower who was provided the mortgage is adversely affected by \_\_\_\_\_ interest rates.
  - A) stable; decreasing
  - B) increasing; stable
  - C) increasing; decreasing
  - D) decreasing; increasing

ANSWER: C

4. Rates for adjustable-rate mortgages are commonly tied to the:
  - A) average prime rate over the previous year.
  - B) Fed's discount rate over the previous year.
  - C) average Treasury bill rate over the previous year.
  - D) average Treasury bond rate over the previous year.

ANSWER: C

5. Caps on mortgage rate fluctuations with adjustable-rate mortgages (ARMs) are typically \_\_\_\_\_ percent per year and \_\_\_\_\_ percent for the mortgage lifetime.
  - A) 2; 5
  - B) 5; 15
  - C) 0; 10
  - D) 3; 8

ANSWER: A

6. From the perspective of the lending financial institution, interest rate risk is:
- A) lower on a 30-year fixed-rate mortgage than on a 15-year fixed-rate mortgage.
  - B) lower on a 15-year fixed-rate mortgage than on a 30-year fixed-rate mortgage.
  - C) higher on a 15-year fixed-rate mortgage than on a 30-year fixed-rate mortgage.
  - D) higher on a 15-year adjustable-rate mortgage than on a 30-year adjustable-rate mortgage.

ANSWER: B

7. Mortgage companies specialize in:
- A) purchasing mortgages originated by other financial institutions.
  - B) investing and maintaining mortgages that they create.
  - C) originating mortgages and selling those mortgages.
  - D) borrowing money through the creation of mortgages that is used to invest in real estate.

ANSWER: C

8. For any given interest rate, the shorter the life of the mortgage, the \_\_\_\_\_ the monthly payment and the \_\_\_\_\_ the total payments over the life of the mortgage.
- A) greater; greater
  - B) greater; less
  - C) less; greater
  - D) less; less

ANSWER: B

9. A financial institution has a higher degree of interest rate risk on a \_\_\_\_\_ than a \_\_\_\_\_.
- A) 30-year fixed-rate mortgage; 15-year fixed-rate mortgage
  - B) 30-year variable-rate mortgage; 30-year fixed-rate mortgage
  - C) 15-year fixed-rate mortgage; 30-year fixed-rate mortgage
  - D) 15-year variable-rate mortgage; 15-year fixed-rate mortgage

ANSWER: A

10. (Use an amortization schedule.) A 15-year, \$100,000 mortgage has a fixed mortgage rate of 9 percent. In the first month, the total mortgage payment is \$\_\_\_\_\_, and \$\_\_\_\_\_ of this amount represents payment of interest.
- A) 1,014; 264
  - B) 1,241; 750
  - C) 1,014; 750
  - D) none of these

ANSWER: C

11. A mortgage which requires interest payments for a three- to five-year period, then full payment of principal, is a(n):
- A) chattel mortgage.
  - B) balloon payment mortgage.
  - C) variable-rate mortgage.
  - D) open-ended mortgage bond.

ANSWER: B

12. In an amortization schedule of monthly mortgage payments,:
- A) the amount of interest in each payment is equal to the principal paid.
  - B) interest payments exceed principal payments early on.
  - C) principal payments exceed interest payments early on.
  - D) none of these.

ANSWER: B

13. A mortgage with low initial payments that increase over time without ever leveling off is a \_\_\_\_\_ mortgage.
- A) graduated payment
  - B) growing-equity
  - C) second
  - D) shared-appreciation

ANSWER: B

14. The interest rate on a second mortgage is \_\_\_\_\_ a first mortgage created at the same time, because the second mortgage is \_\_\_\_\_ the existing first mortgage in priority claim against the property in the event of default.
- A) higher than; behind
  - B) equal to; equal to
  - C) lower than; ahead of
  - D) higher than; ahead of
  - E) lower than; behind

ANSWER: A

15. Which of the following mortgages allows the home purchaser to obtain a mortgage at a below-market interest rate throughout the life of the mortgage?
- A) second mortgage
  - B) growing-equity mortgage
  - C) graduated payment mortgage
  - D) shared-appreciation mortgage

ANSWER: D