Chapter 6

Learn Mortgage

Nontraditional/ Nonconforming Loans & Financing

Chapter Objectives

- Describe the advantages and disadvantages of buydown plans
- Identify the elements that make up an adjustable rate mortgage
- Describe the purpose of construction loans, including the three most common disbursement plans
- Identify the characteristics of a reverse mortgage
- Identify the factors that define a subprime loan
- Describe the agency guidelines on lending and subprime loans
- Contrast the various types of alternative financing

Mortgage Products

- **Many financing tools to help borrowers achieve their goals**
- **MLOs need to understand how nontraditional products/tools work to help customers reach their goals**
- **For example: For lower monthly payment**
  - Prepay interest with discount points
  - Adjustable-rate mortgage
  - Interest-only mortgage

Nontraditional and Nonconforming

- **Nonconforming Loan Classification**
  - **Jumbo Loans:** Size of loan exceeds maximum loan limits
  - **B or C Borrowers:** Do not meet minimum credit standards
- **Alt-A Loans**
  - Requires excellent borrower credit and less documentation
- **A-Minus Loans**
  - For borrower with blemished credit record (<680 FICO); higher interest rate to offset risk

Buydown Plans

- **Points**
  - 1% of loan amount
  - Points can cover processing or servicing costs
- **Discount Points**
  - Buydown/lower note interest rate
  - Appears on Loan Estimate as borrower charge
- **Borrower Advantages**
  - Lowers monthly payment amount
  - May improve loan qualifications

Case in Point

Consider an FHA refinance for a mortgage loan originated in 2008 that had a principle and interest payment of $1924.89 per month for a 30-year fixed term.

Six years later, the borrower refinances to a new 30-year term loan with a principle and interest payment of $1,447.09, a reduction of $477.80 per month.

If the borrower paid $3,000 in closing costs to obtain the new loan, the time to recapture the investment is calculated as follows:

Total Closing Costs ($3,000) / Monthly Decrease in Payments ($477.80) = Time to Recoup (Recapture Time) or 6.28 Months

6.1 Knowledge Check

Given the Case in Point information on the previous page, what is the net benefit to the borrower when comparing the amount of remaining payments that will be made on the existing loan to the total payment amount plus closing costs of a loan refinance?

A. $20,315.42

B. $30,415.92

C. $30,541.29

D. $32,422.99

Buydown Plans

- **Another Option**
  - Seller or other interested third-party agrees to pay discount points to buy down the interest rate for the borrower.
  - Lender determines what the buydown amount is and subtracts that amount from the loan proceeds paid to the seller for the property.
  - This is reflected on the Closing Disclosure as a charge to the seller. The borrower still signs a note for the full amount but receives a lower interest rate over the life of the loan.

Buydown Plans

- **Permanent**
  - Points paid to reduce the interest rate and loan payments for the entire life of the loan
  - Interest rate written into promissory note
  - Nominal rate or coupon rate stated in the note is the actual reduced interest rate
- **Temporary**
  - Funds deposited at closing to reduce amount of borrower's monthly payment amount; lender receives full payment
  - When deposited funds run out, borrower makes full payment

Buydown Plans - Limits

- **Fannie Mae and Freddie Mac**
  - Interested/Third-party contributions (IPC) limited
  - May not be used to make down payment, meet finance reserve requirements, or minimum contribution requirements
  - Limited to a percentage of the sale price of a property or its appraised value, whichever is less
  - Contributions that exceed guidelines must be deducted from the value or sale price of the property before determining the maximum loan amount

Buydown Plans - Limits

- **Fannie Mae and Freddie Mac**

Property Type	LTV/CLTV	Max Contribution
Investment	All CLTV Ratios	2%
Principle or Second	> 90%	3%
	75.01% - 90%	6%
	75% or less	9%

Contributions made by lenders, employers, or immediate family members usually are not subject to these limits unless they are also the seller

Buydown Plans - Limits

- **FHA**
  - Third-party contributions limited
  - With temporary buydown rate, borrower must qualify at note rate and reduction limited to 2% points below interest rate on note
  - Allows maximum IPC of 6% of lesser of sale price or appraisal value
  - Excess deducted from maximum loan amount
- **VA**
  - No set limits on IPCs
  - Seller concession limited to 4% of lesser of sale price or appraised value

6.2 Knowledge Check

Fannie Mae/Freddie Mac guidelines limit loan purchase contributions by sellers or other interested parties to a percentage of the property sale price or its appraised value,

A. whichever is lower.

B. whichever is higher.

6.3 Apply Your Knowledge

A borrower wants to buy a $150,000 home and is going to make a $15,000 down payment. The borrower is seeking a conventional loan but does not want to pay more than 6.5% interest.

The lender agrees to 6.5% interest based on two discount points and a loan origination fee of 2%.

6.3 Apply Your Knowledge

1. **What is the total amount of points (in dollars and percentage) that the lender will receive for making this loan?**

$5,400

Points are based on the loan amount of $135,000 ($150,000 – $15,000 down payment). The lender is charging a total of 4 points or 4% of the loan. Discount points total $2,700 ($135,000 x .02) and the loan origination fee is $2,700 ($135,000 x .02). The total the lender will receive in points is $5,400 ($2,700 + $2,700).

6.3 Apply Your Knowledge

2. If the seller agrees to pay the discount points, how much will the seller net from the transaction? (Assume the seller pays no other costs.)

$147,300

The seller net is the sale price minus any seller-paid points, so the seller will net $147,300 ($150,000 – $2,700).

6.3 Apply Your Knowledge

3. **What will the borrower's note state as the interest rate on the loan? What dollar amount will the note say was borrowed?**

$135,000

The loan note rate will be 6.500% since this is not a temporary buydown. The amount on the note equals the loan amount, not the sale price, and does not reflect the seller-paid points, so it's $135,000 ($150,000 – $15,000).

6.3 Apply Your Knowledge

4. **Can the lender sell this loan to Fannie Mae or Freddie Mac on the secondary market? Why or why not?**

Yes.

The lender should be able to sell this loan to Fannie Mae/Freddie Mac on the secondary market because with a 90% LTV, it has less than the 6% seller assistance limit that their programs allow.

Adjustable Rate Mortgages

- **ARM Features and Benefits**
  - Lower risk = lender charge lower start rate
  - May allow borrower to qualify more easily
  - Allows lender to pass risk on to borrower and charge lower start rate
  - Terms, rate changes, and many other aspects of ARMs are regulated by several agencies; must be followed
- **ARM Components**
  - Index, margin, rate adjustment period, interest rate cap/floor (if any), and conversion option (if any)

ARM Components

- **Index**
  - Interest rate of loan tied to index
  - At time loan is made, borrower selects index
  - Fluctuates during term of loan causing interest rate to increase or decrease
  - Fluctuates with other short-term interest rate debt instruments affected by market conditions and major publications
  - Referred to as “cost of money”

ARM Components

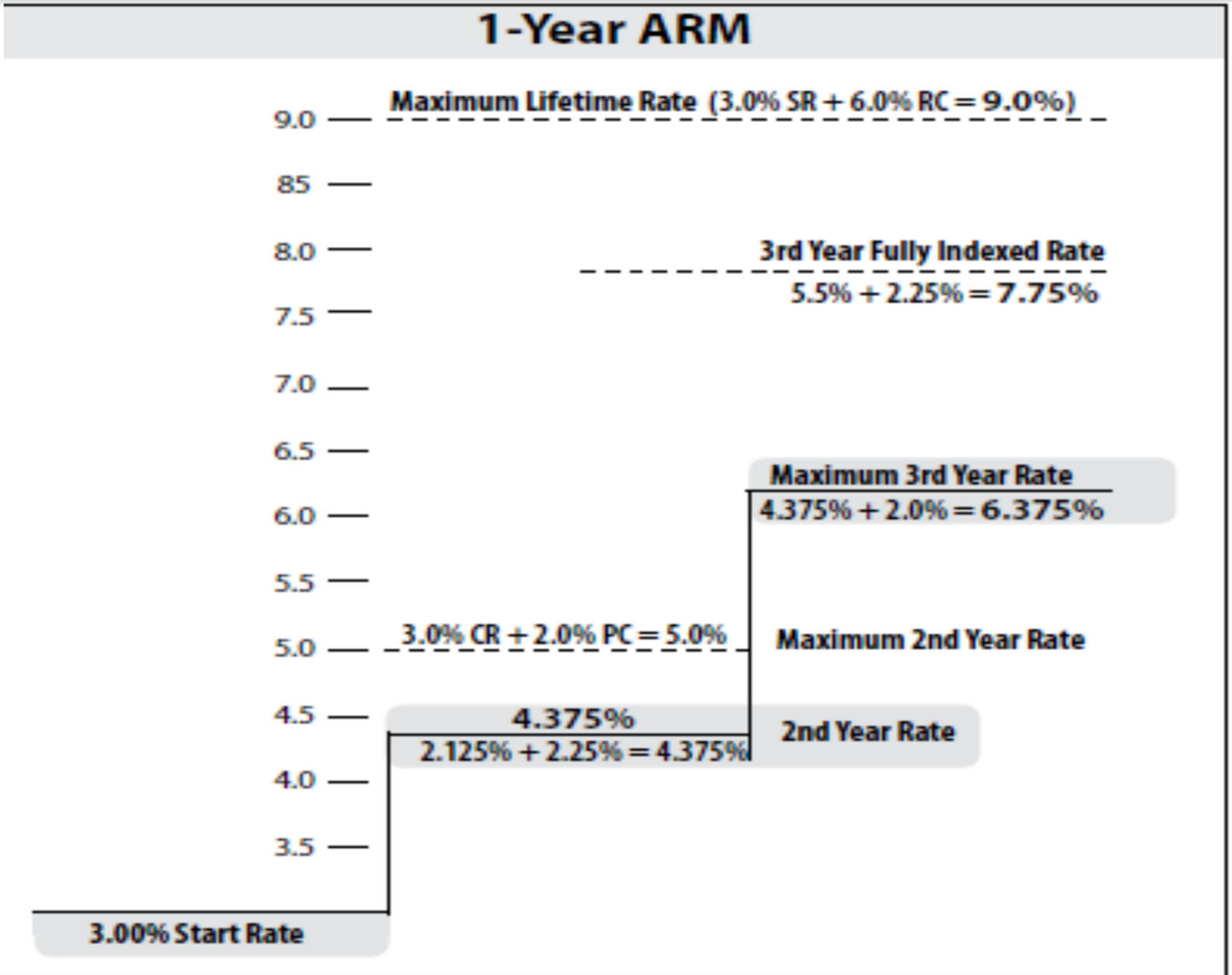
- **Margin**
  - Referred to as "spread"
  - Remains fixed for the duration of the loan
  - Number of % points added to index set by lender; represents lender profit

	4.25%	Current Index Value
+	2.00%	Margin
	6.25%	Fully Indexed Rate

ARM Components

- **Rate Adjustment Period**
  - Length of time between interest rate charges
- **Interest Rate Cap**
  - Limits number of percentage points an interest rate can be increased during term of a loan
  - Example 2/6 =
    - Periodic cap: First number (2) indicates maximum amount interest rate can increase/decrease from 1 adjustment period to next
    - Lifetime cap: Second number (6) maximum amount the interest rate can increase during the life of the loan
    - 5/2/6: 5 indicates rate cannot increase more than 5% at the first adjustment

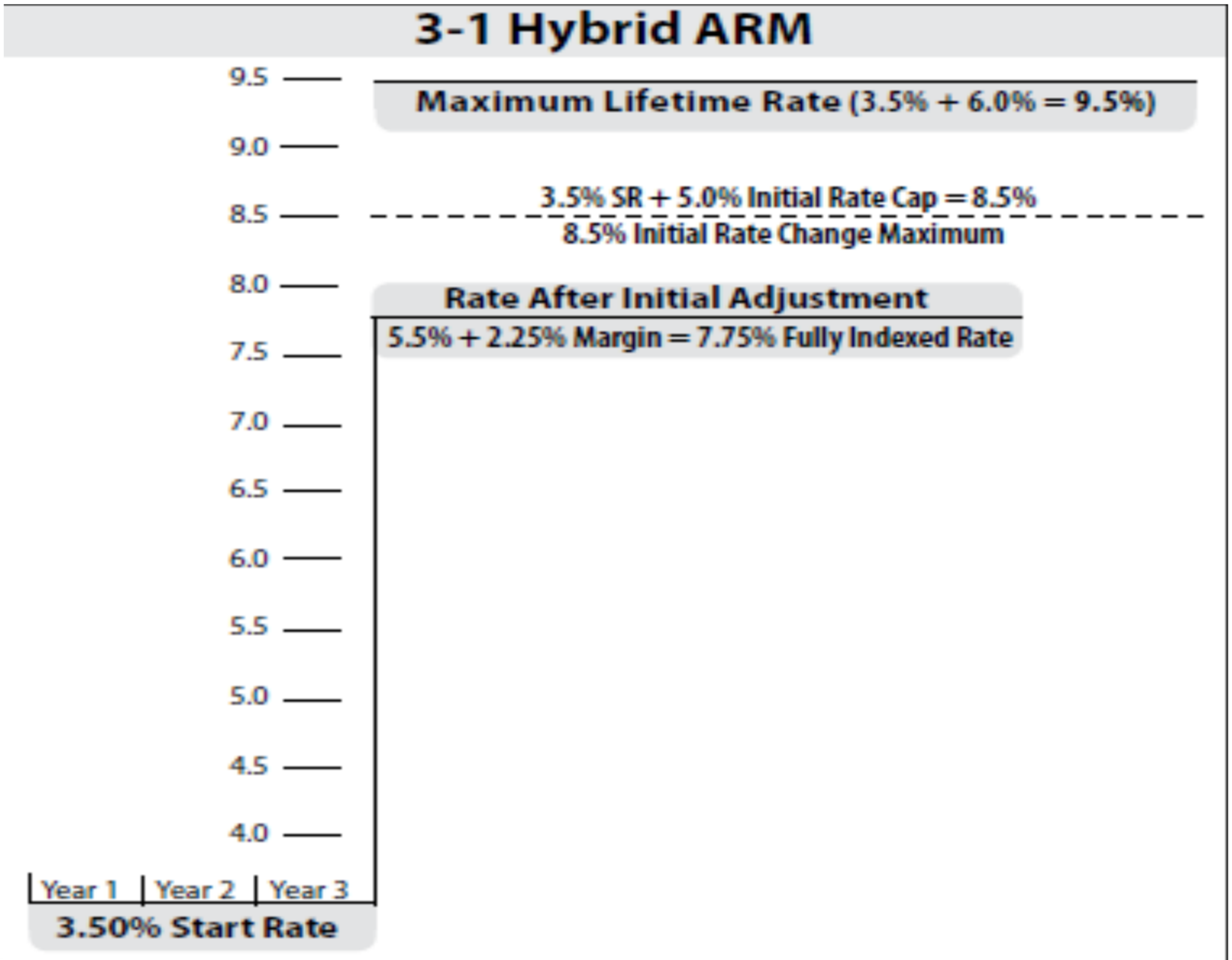
How an ARM Works



Adjustable Rate Mortgages

- **Hybrid ARM**
  - An ARM with initial fixed-rate period greater than one year
  - For example: 3/1 hybrid ARM; fixed/teaser rate for 3 years; interest rate adjusts annually after 3 years

How Hybrid ARM Works



6.4 Apply Your Knowledge

Assume a borrower gets a 1-year ARM for $100,000 for 30 years. It has a 5/2/6 interest rate cap. The current index rate is 4.5%, the margin is 3%, and the discounted start rate is 4%.

	Year 1	Year 2	Year 3	Year 4	Year 5
Index	**4.5%**	**6.5%**	**4%**	**7%**	**8%**
Fully Indexed Rate (Index + 3%)	**7.5%**	**9.5%**	**7%**	**10%**	**11%**
Borrower Interest Rate w/Caps	**4% (start)**	**9%**	**7%**	**9%**	**10%**
Monthly Payment (P&I only)	**$536.82**	**$804.62**	**$665.30**	**$804.62**	**$877.57**

ARM Components

- **Conversion Option**
  - Gives the borrower the right to convert from an ARM to a fixed-rate loan
  - Conversion option note normally includes:
    - Interest rate
    - Limited time to convert
    - Conversion fee

ARM Standardization and Disclosures

- **Standardization**
  - Most lenders follow secondary market standards
  - May be subject to lower LTV and DTI ratios
- **Disclosures**
  - Consumer Handbook on Adjustable Rate Mortgages
  - Disclosures specific to ARM program
- **Loan Servicer Requirements**
  - 60 days' notice before an interest rate change occurs, if change results in a new payment amount
  - Initial interest rate change disclosure 7 to 8 months before the first payment is due at the new rate

12 CFR § 1026.19

ARM Standardization and Disclosures

- **Real Success Best Practices**
  - Never use the term "fixed rate" when discussing the period between adjustments during which that interest rate remains unchanged
  - Provide complete disclosure of how ARM works
- **APR Disclosure**
  - LE Comparisons section must reflect the finance charges and fees as well as the composite APR; lender must disclose more than low initial rate
  - Composite APR is based on the initial payment rate and fully indexed rate that could exist for the remaining years of the loan term

6.5 Apply Your Knowledge

A borrower received a 30-year ARM mortgage loan for $200,000. Rate caps are 3/2/6.

The start rate is 3.50% and the loan adjusts every 12 months for the life of the mortgage.

The index used for this mortgage is MTA (for this exercise, 3.00% at the start of the loan, 4.45% at the end of the first year, and 4.50% at the end of the second year).

The margin on the loan is 3.00%, which remains the same for the duration of the loan.

6.5 Apply Your Knowledge

1. **What is the initial rate (start rate) the borrower will pay during the first year?** **3.50%**

2. **What is the interest rate the borrower will pay after the first rate adjustment?** **6.50%**

6.50% is the sum of the previous rate (3.50%) + the initial adjustment cap (3.00%).

The fully indexed rate is 7.45% (4.45% (MTA index) + 3.00% (margin))

The borrower always receives the lower of the two calculated interest rates.

6.5 Apply Your Knowledge

3. **What is the fully indexed rate after the second year?** 7.50%

The index is 4.50% and the margin remains constant at 3.00% which equals a fully indexed rate of 7.50%.

4. **What is the maximum interest rate the borrower will pay during the 30-year term for this loan?** 9.50%

The maximum interest rate is the sum of the start rate (3.50%) plus the lifetime cap (6.00%) which sets the maximum lifetime rate at 9.50%.

6.5 Apply Your Knowledge

5. **If the interest rate is at its maximum, what would the MTA index have to be to reach the maximum interest rate?**

6.50%

Use the formula of FIR = Index + Margin

The MTA index would need to reach 6.50%.

9.50% (maximum rate) = ? (MTA index) + 3.00% (margin) and 9.50% (maximum rate) – 3.00% (margin) = 6.50% (MTA index)

6.6 Apply Your Knowledge

Advantages	Disadvantages
Lower initial interest rate and payments	No interest rate guarantees
May be easier to qualify loan	No payment guarantees
Leverage buyer into higher-priced home	Buyer's financial situation may change
Payments may decrease over time	Buyer may over-leverage
May be converted to fixed-rate loan	Possibility of negative amortization
Good low inflation/short-term ownership	May have to pay fee to convert even if chooses not to convert

Construction Loans

- **Construction Mortgage**
  - An interim or short-term, temporary loan used to finance the construction of improvements and buildings on land
  - After the loan is approved and funded, construction funds are placed in an account and released to the borrower/builder as “draws” or obligatory advances
  - Lenders use plans for disbursing construction loan proceeds to guard against overspending by the borrower
    - Fixed Disbursement Plan
    - Voucher System
    - Warrant System

Construction Loans

- **Fixed Disbursement Plan**
  - Pays a percentage of funds at a set time; predetermined disbursements, obligatory advances, are paid out at various stages of construction
    - First Release/Draw 10%; project 20% complete
    - Second Release/Draw 20%; project 40% complete
    - Third Release/Draw 20%; project 60% complete
    - Fourth Release/Draw 20%; project 80% complete
    - Fifth Release/Draw 20%; project 100% complete

Construction Loans

- **Voucher System**
  - Contractor or borrower pays bills then submits receipts for reimbursement
- **Warrant System**
  - Lender directly pays bills; borrower makes an interest-only payment to the lender on the outstanding funds advanced
- **Take-Out Loan**
  - Construction is complete; replace interim construction loan with permanent long-term mortgage, such as a conventional or government-insured loan

Subprime Loans

- **About Subprime Loans**
  - For borrowers with credit risk standards
  - Do not conform to secondary market standards
  - Popular until mortgage meltdown
- **Historical Characteristics**
  - High interest rates and debt-to-income ratios
  - Low down payment and lower FICO® scores allowed
  - Little/no verification of ability to repay the mortgage debt
  - Excessive loan fees and hybrid loan features
- **Cost of Loan/ Interest Rate**
  - Once driven by collateral, equity, and credit score; now predominant qualification is ability to repay

Subprime Loans

- **Underwriting Standards**
  - Risk layering: mortgage includes more than 1 risk factor
- **Risk Factors**
  - Interest-only loans
  - Negative amortization
  - ARMs with a short introductory interest rate period
  - Low FICO® scores
  - Payment delinquencies, charge-offs, bankruptcies, foreclosures, or judgments
  - Reduced documentation loans
  - High LTV or DTI
  - Secondary financing, which reduces the borrower's equity or down payment
  - Lack of employment or job stability
  - Significant increase in the borrower's current housing expense in relation to the proposed housing expense

Subprime Loans

- **Today's Subprime Loan**
  - Re-emerging as alternative loan product
  - Must comply with a variety of laws, such as HOEPA high-cost loan provisions
  - Lenders assume greater responsibility

Balloon Mortgage Loans

- **About Balloon Mortgages**
  - Partially-amortizing loan
  - Calls for periodic payments of principal and interest during the loan term with a balloon payment at the end of the term to pay off the balance due
  - **Example: Expressed as 360/120**
    - 360 identifies the amortization period the monthly payment is calculated on
    - 120 identifies the term when the monthly payment stops and the final balloon payment is due.
  - **Home Equity Loan: Expressed as 30/15**
    - 30-year loan term with a balloon payment requirement in 15 years

Home Equity Loans and Lines

- **Home Equity Loan**
  - Secured by a mortgage on one's principal residence
  - Closed-end loan that offers a fixed amount of money that can be repaid with regular payments over a fixed term
- **Home Equity Line of Credit (HELOC)**
  - Open-end loan; specific credit limit; draw and pay back principal only as it is used
  - Two phases:
    - A draw period during which borrowers commonly pay interest-only
    - A repayment period during which payments are generally amortized

Reverse Mortgages

- **About Reverse Mortgages**
  - Allow qualified borrower (62 and older) to convert equity in home without selling or making payments
  - Funds may be used for virtually anything
  - Also called reverse equity mortgage or reverse annuity mortgage (RAM); FHA's Home Equity Conversion Mortgage (HECM) is most popular
  - Balance of loan rises as equity shrinks (rising debt, falling equity)
  - At end of loan, all equity could be gone

12 CFR § 226.33

Reverse Mortgages - Eligibility

- **HUD Initial Funds Disbursement Guidelines**
  1. Implementation of maximum disbursement of either 60% of principal limit or sum of the mandatory obligations plus 10% of principal limit to borrower

If the principal limit for a HECM is $100,000, a borrower in the first 12 months of the loan may receive the greater of:

– $60,000, or
– The sum of the payoff amount, the mandatory obligations, mortgage insurance, and $10,000

Reverse Mortgages - Eligibility

- **HUD Initial Funds Disbursement Guidelines**

2. For fixed-interest rate HECMs (after 6/25/14), HUD only insures fixed-rate, single lump sum disbursements that do not provide for future draws; borrower responsible for taxes and insurance
3. Mortgage insurance is charged by HUD on all mortgage loans
    - 2.0% Up-front mortgage insurance fee of MCA, and
    - 0.50% of outstanding mortgage balance
4. Prior to loan approval and loan closing, lenders must complete financial assessment of potential mortgagor's capacity and willingness to comply with mortgage provisions

Mortgagee Letter 2011-01; Mortgagee Letter 2017-12

Reverse Mortgages – HECM Eligibility

- **HUD Initial Funds Disbursement Guidelines**
  - Life Expectancy Set-Aside Requirement
    - Required for adjustable and fixed rate HECMs
    - Fully-funded available for adjustable and fixed when required by mortgagee
    - Partially-Funded available only for adjustable when required by mortgagee
- **Income Requirement**
  - No DTI ratio requirement; must complete credit and income analysis to determine ability to live in/maintain home, including ability to pay taxes and insurance
- **Age Requirement**
  - All who have ownership interest must be at least 62

Mortgagee Letter 2014-21

Reverse Mortgages – Succession

- **Borrowing Spouse Dies/Vacates**
  - Must contain statement (signed at closing) that extends the deferral date of the due and payable status for non-borrowing, married spouse
- **Failure to Comply with Non-Borrower Spouse Deferral Requirements**
  - HECM immediately due and payment at end of deferral period
  - Mortgagor maintains ability to sell property for at least the lesser of the sale price or appraised value

Mortgagee Letter 2014-07

Reverse Mortgages – Succession

- **Non-Borrower Spouse Deferral Requirements**
  - Was spouse at closing and now
  - Named as non-borrowing spouse; received disclosures
  - Has and is occupying property as principal residence
  - Satisfies following conditions:
    - Establish ownership in 90 days
    - Ensure all other conditions are satisfied
    - Ensure HECM not eligible to be called due and payable for other reason

Mortgagee Letter 2014-07

Reverse Mortgages – Succession

- **Non-Borrower Spouse Deferral Requirements**
  - HECM term requirements
    - Continue to accrue interest per terms
    - Continue to pay monthly MIP to HUD
    - Continue collection of servicing fees
    - Only future disbursements may be Repair Set-Aside
  - HECM application requirements
    - Stated legally married at loan closing
    - Verified name and age of non-borrowing spouse; does not have to be 62
  - After death of mortgagor: Lender must obtain Non-Borrowing Spouse certification within 30 days

Mortgagee Letter 2014-07

Reverse Mortgages – Succession

- **Guidance for Non-Borrowing Spouse**
  - Inform lender of legal marriage; ensure lender confirms and files required forms with HUD annually
  - Remain married to guard interest
  - Ensure non-borrowing spouse is named in mortgage documents
  - Pay property taxes and hazard insurance when due
  - Continue to occupy home as a primary residence
  - When borrowing spouse ceases to be an owner occupant, file paperwork to establish legal ownership within 90 days of spouse's departure
  - Seek legal advice on issues

Mortgagee Letter 2014-07

Reverse Mortgages – Requirements

- **Eligible Properties**
  - Single-family homes, including condos and PUDs eligible
  - Mobile homes / co-ops not generally eligible
- **Insurance**
  - Homeowner's insurance must be maintained at replacement value; flood insurance may be required
- **Ownership**
  - Home must be principal residence with little or no mortgage balance

Reverse Mortgages – Requirements

- **Counseling**
  - Participation in consumer counseling session with approved counselor required before loan application is submitted by lender
  - Counselor must provide certification of counseling
  - Certification of counseling must be received by lender to submit an application

Reverse Mortgage – Amount Available

- **Mortgage Amount Determining Factors**
  - Appraisal of home value
  - Amount of equity
  - Payment options
  - Interest rate
  - Program costs
  - Loan financing fees
  - Location of home
  - Age of homeowner
    - Important factor; younger = higher amount; non-borrowing spouse age considered too
- **2022 Nationwide Maximum: $970,800.**

6.7 Knowledge Check

Property homeowner Alice must be at least ___ years old to qualify for a reverse mortgage.

A. 55

B. 60

C. 62

D. 65

Reverse Mortgages – Payment Options

- **Payment Options**
  - Fixed monthly payments (for as long as the homeowner remains in the home)
  - Lump sum
  - Fixed monthly payment (for a certain term during the lifetime of the borrowers)
  - Line of credit
- **Tax Implications**
  - Generally not considered income by IRS
  - Interest deducted only at loan conclusion
  - Could affect eligibility for other programs

Reverse Mortgages - Repayment

- **Repayment**
  - Conditions for Repayment
    - Dies
    - Sells the home
    - Ceases to live in home for 12 consecutive months
- **Repayment Amount**
  - Total amount due includes money paid out and interest, insurance, and fees

Reverse Mortgages - Repayment

- **Repayment Actions**
  - Often proceeds from sale used for repayment; any remaining equity belongs to estate
  - Lender cannot force out of home or sell home for repayment
  - Lender generally allows up to 12 months for repayment
  - **Non-Recourse** loan means cannot owe more than fair market value, minus reasonable sales expenses

Reverse Mortgages - Repayment

- **Repayment Acceleration Conditions**
  - Homeowner fails to make necessary property repairs
  - Property is condemned
  - Homeowner does not pay mandatory property taxes
  - Homeowner ceases to pay appropriate homeowner's insurance premiums
  - Government entity claims eminent domain over property
  - Borrower ceases to live in property or it is discovered property is no longer borrower's principal residence

Seller Financing

- **Forms of Creative Financing**
  - May not have to be a licensed MLO to perform
  - Exemption does not require the seller (also the financer) to be a licensed MLO, even though negotiation of mortgage rates and terms are involved in the sale negotiations
- **Selling Financing Overview**
  - When a seller extends credit to a buyer to finance the purchase of the property instead of, or in addition to, the buyer obtaining a loan from a third party

12 CFR Subpart E, §1026.36, (a)(4) (5)

Seller Financing

- **Purchase Money Mortgage**
  - Mortgage given by buyer to seller for purchase of real estate; seller-held mortgage
  - Sellers not bound by institutional policies regarding ratios, interest rates, or qualifying standards
- **Assumption**
  - One party agrees to take over payments of another party's debt with terms of the note unchanged
  - Seller must get a release to avoid recourse in event of foreclosure

Seller Financing

- **Seller-Sponsored Wraparound**
  - Seller retains existing loan on the property while giving the buyer a second loan
  - This new total loan is treated as one obligation by the buyer, who makes one payment to the seller for the entire (combined) debt
  - The seller, in turn, pays the original mortgage lender and keeps the excess

Seller Financing - Rules

- **Mortgage Reform and Anti-Predatory Lending Act**
  - Regulations address loans created by a seller providing financing to a buyer
- **3 or Less in Preceding 12 Months Guidelines**
  - Seller has not constructed/acted as contractor for construction of residence on property
  - Seller financing must be fully amortizing, consumer must have ATR; fixed rate or 5/1 hybrid ARM
  - Any seller financing that exceeds the 3 financed properties per year will require the seller to use an MLO to qualify the buyer

12 CFR Subpart E, § 1026.36 and Title XIV § 1401(2)(E)

Seller Financing - Rules

- **One in Preceding 12 Months Guidelines**
  - Natural person, estate, or trust:
    - Provides seller financing for sale of only 1 property in any 12-month period to purchasers of such property, which is owned by the natural person, estate, or trust and serves as security for the financing
    - Has not constructed, or acted as a contractor for the construction of, a residence on the property in the ordinary course of business of the person
  - Seller financing must be fully amortizing, consumer must have ATR, fixed rate or 5/1 hybrid ARM
- **Violation of Guidelines**
  - Gives buyer 3 year right of rescission

12 CFR Subpart E, § 1026.36 and Title XIV § 1401(2)(E)

Seller Financing

- **Alienation Clause**
  - Gives the lender the right to exercise certain rights upon transfer of the property
  - Determine if existing mortgage has; borrower's transfer of any ownership interest without lender's knowledge/consent may cause default
- **Land Contracts**
  - Installment agreement; buyer makes payments to seller in exchange for right to occupy/use property
  - Seller holds title; buyer/debtor enjoy land but is not the legal owner

Other Forms of Creative Financing

- **Lease/Option**
  - Property lease for specific term with option to buy at a predetermined price during lease term
- **Lease/Purchase**
  - Seller leases property to someone for a specific term, with the tenant agreeing to buy the property at a set price during or following the lease term
- **Equity Exchanges**
  - Value in one property being traded for value in another property

Homebuyer Assistance Programs

- **Program Features**
  - Down payment assistance
  - Subsidized mortgage interest rates
  - Help with closing costs
  - Programs often limited
  - Underwriting requirements similar to FHA loans
- **Program Sponsors**
  - Government or non-profit organizations; promote homeownership
  - Lenders; Community Reinvestment Act obligation
  - Cities/counties/states; target specific neighborhoods

Chapter 6 Quiz

1. **Which statement is true about interest rate buydowns on FHA loans?**
   A. A borrower may qualify at the buydown rate.
   B. A borrower must qualify at the note rate.
   C. The FHA does not allow builder-paid buydowns.
   D. The FHA does not allow seller-paid buydowns.

Chapter 6

Chapter Quiz

Chapter 6 Quiz

2. **What is the adjustable number used to compute the interest rate on an ARM?**
   A. cap
   B. index
   C. margin
   D. prepayment

Chapter 6 Quiz

3. With an ARM, the index is added to the ______ to determine the _________.

A. APR/cost of funds

B. home value/amount borrowed

C. margin/fully indexed interest rate

D. qualifying ratio/maximum monthly mortgage payment

Chapter 6 Quiz

4. Negative amortization occurs when

A. a borrower suffers payment shock.

B. each mortgage payment is adjusted more frequently than a typical interest rate allows.

C. a loan decreases in value.

D. the payment made does not cover the interest due for that period.

Chapter 6 Quiz

5. Subprime loans are different from conforming loans because they

A. allow for lower interest rates.

B. allow for more risk.

C. are only offered by banks.

D. are sold in the secondary market.

Chapter 6 Quiz

6. Which scenario BEST describes a land contract?

A. A buyer makes payments to the seller in exchange for the right to occupy, use, and enjoy the property, but no deed or title transfers until a specified portion of payments have been made.

B. A buyer takes over primary liability for the loan of a seller, usually implying no change in loan terms.

C. A seller keeps the existing loan and continues to pay on it while giving the buyer another loan.

D. A seller leases the property with the provision that part of the rent payments be applied to the sale price if the tenant decides to purchase before the lease expires.

Chapter 6 Quiz

7. The type of mortgage where a borrower receives a monthly check rather than making scheduled payments to a lender is known as a

A. budget mortgage.

B. forward mortgage loan.

C. fully amortizing loan.

D. reverse mortgage.

Chapter 6 Quiz

8. Increased risk factors for subprime loans include all of the following features EXCEPT

A. excessive loan fees.

B. high interest rates.

C. higher FICO® scores required.

D. low down payment requirements.