

**FINC-3700 Markets and Institutions**  
**Summer 2009 Thommesen**  
**Chapter 12 Sample Exam Questions**

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) (I) ARMs offer lower initial rates and the rate may fall during the life of the loan. (II) Conventional mortgages do not allow a borrower to take advantage of falling interest rates.
  - A) (I) is false, (II) is true.
  - B) (I) is true, (II) is false.
  - C) Both are true.
  - D) Both are false.
  
- 2) During the early years of a balloon mortgage loan, the lender applies
  - A) all of the monthly payment to the outstanding principal balance.
  - B) all of the monthly payment to interest on the loan.
  - C) most of the monthly payment to interest on the loan.
  - D) most of the monthly payment to the outstanding principal balance.
  - E) the monthly payment equally to interest on the loan and the outstanding principal balance.
  
- 3) Growing-equity mortgages (GEMs)
  - A) offer borrowers payments that are initially lower than the payments on a conventional mortgage.
  - B) help the borrower pay off the loan in a shorter time.
  - C) have such low payments in the first few years that the principal balance increases.
  - D) do all of the above.
  - E) do only A and B of the above.
  
- 4) Which of the following is true of mortgage interest rates?
  - A) Mortgage rates are lower than Treasury bond rates, because of the tax-deductibility of mortgage interest rates.
  - B) In exchange for points, lenders reduce interest rates on mortgage loans.
  - C) Longer-term mortgages have lower interest rates than shorter-term mortgages.
  - D) All of the above are true.
  - E) Only A and B of the above are true.
  
- 5) Which of the following has not been a reason for the development and growth of on-line mortgage lending?
  - A) It has led to simplification of loan alternatives and made comparison shopping easier.
  - B) Mortgage lending is an information-based service and no products have to be inventoried or shipped.
  - C) The product (a mortgage loan) is homogeneous.
  - D) On-line lenders have lower overhead and can offer loans at lower costs.
  
- 6) Distinct elements of a mortgage loan include
  - A) investment.
  - B) origination.
  - C) servicing.
  - D) all of the above.
  - E) only B and C.
  
- 7) A borrower who qualifies for an FHA or VA loan enjoys the advantage that
  - A) only a very low or zero down payment is required.
  - B) the government holds the lien on the property.
  - C) the mortgage payment is much lower.
  - D) the cost of private mortgage insurance is lower.

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- 8) The Federal National Mortgage Association (Fannie Mae)
- A) was set up to buy mortgages from thrifts so that these institutions could make more loans.
  - B) funds purchases of mortgages by selling bonds to the public.
  - C) provides insurance for certain mortgage contracts.
  - D) all of the above.
  - E) only A and B of the above.
- 9) Which of the following is true of mortgage interest rates?
- A) Interest rates are higher on mortgage loans on which lenders charge points.
  - B) Mortgage rates are closely tied to Treasury bond rates, but mortgage rates tend to stay below Treasury rates because mortgages are secured with collateral.
  - C) Longer-term mortgages have higher interest rates than shorter-term mortgages.
  - D) All of the above are true.
  - E) Only A and B of the above are true.
- 10) \_\_\_\_\_ issues participation certificates, and \_\_\_\_\_ provides federal insurance for participation certificates.
- A) Ginnie Mae; Ginnie Mae
  - B) Ginnie Mae; Freddie Mac
  - C) Freddie Mac; Ginnie Mae
  - D) Freddie Mac; no one
  - E) Freddie Mac; Freddie Mac
- 11) (I) Conventional mortgages are originated by private lending institutions, and FHA or VA loans are originated by the government. (II) Conventional mortgages are insured by private companies, and FHA or VA loans are insured by the government.
- A) (I) is false, (II) is true.
  - B) (I) is true, (II) is false.
  - C) Both are true.
  - D) Both are false.
- 12) Which of the following is true of mortgage interest rates?
- A) The interest rate on 15-year mortgages is lower than the rate on 30-year mortgages, all else the same.
  - B) Interest rates on mortgage loans are determined by three factors: current long-term market rates, the term of the mortgage, and the number of discount points paid.
  - C) Mortgage interest rates tend to track along with Treasury bond rates.
  - D) All of the above are true.
  - E) Only A and B of the above are true.
- 13) The most common type of mortgage-backed security is
- A) the securitized mortgage, a security which increases the liquidity of otherwise illiquid mortgages.
  - B) the mortgage pass-through, a security that has the borrower's mortgage payments pass through the trustee before being disbursed to the investors.
  - C) collateralized mortgage obligations, a security which reduces prepayment risk.
  - D) the participation certificate, a security which passes the borrower's mortgage payments equally among all the owners of the certificates.

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- 14) During the early years of an amortizing mortgage loan, the lender applies
- A) the monthly payment equally to interest on the loan and the outstanding principal balance.
  - B) all of the monthly payment to the outstanding principal balance.
  - C) most of the monthly payment to interest on the loan.
  - D) most of the monthly payment to the outstanding principal balance.
  - E) all of the monthly payment to interest on the loan.
- 15) Which of the following are important ways in which mortgage markets differ from stock and bond markets?
- A) The usual borrowers in capital markets are government entities and large businesses, whereas the usual borrowers in mortgage markets are small businesses and individuals.
  - B) The usual borrowers in capital markets are government entities, whereas the usual borrowers in mortgage markets are small businesses.
  - C) The usual borrowers in capital markets are businesses and government entities, whereas the usual borrowers in mortgage markets are individuals.
  - D) The usual borrowers in capital markets are government entities and large businesses, whereas the usual borrowers in mortgage markets are small businesses.
- 16) Mortgage-backed securities
- A) are securities collateralized by a pool of mortgages.
  - B) are securities collateralized by both insured and uninsured mortgages.
  - C) have been growing in popularity in recent years as institutional investors look for attractive investment opportunities.
  - D) all of the above.
  - E) only A and B of the above.
- 17) Which of the following is true of mortgage interest rates?
- A) In exchange for points, lenders reduce interest rates on mortgage loans.
  - B) Longer-term mortgages have higher interest rates than shorter-term mortgages.
  - C) Mortgage rates are lower than Treasury bond rates because of the tax deductibility of mortgage interest payments.
  - D) All of the above are true.
  - E) Only A and B of the above are true.
- 18) Which of the following are true of mortgages?
- A) Over 80 percent of mortgage loans finance residential home purchases.
  - B) A mortgage is a long-term loan secured by real estate.
  - C) A borrower pays off a mortgage in a combination of principal and interest payments that result in full payment of the debt by maturity.
  - D) All of the above are true of mortgages.
  - E) Only A and B of the above are true of mortgages.
- 19) Which of the following are true of mortgages?
- A) Because mortgages are long-term loans secured by real estate, mortgage lenders tended to fail when land prices declined, as was often the case during economic recessions.
  - B) In the 1920s, most mortgages were balloon loans, which required the borrower to pay the entire loan amount after three to five years.
  - C) Prior to the 1920s, U.S. banking legislation discouraged mortgage lending by banks.
  - D) All of the above are true.
  - E) Only A and B of the above are true.

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20) Ginnie Mae

- A) insures pass-through certificates.
- B) insures collateralized mortgage obligations.
- C) insures qualifying mortgages.
- D) A and B
- E) B and C

## Answer Key

Testname: CHAPTER-12-SAMPLE

- 1) B
- 2) B
- 3) B
- 4) B
- 5) A
- 6) D
- 7) A
- 8) E
- 9) C
- 10) D
- 11) A
- 12) D
- 13) B
- 14) C
- 15) C
- 16) D
- 17) E
- 18) D
- 19) D
- 20) A