Real Estate Finance

Homework 1

Chapters 1 & 2

**Below are 25 multiple choice questions, each worth 4 points. Highlight the answer you think most correct.**

**CHAPTER 1**

**Real Estate Investment: Basic Legal Concepts**

1. If a lender is to repossess or bring about the sale of a property if the borrower defaults on the mortgage loan, the lender is said to have a \_\_\_ in the real estate.
   1. Freehold interest
   2. Lease interest
   3. Secured interest
   4. Quitclaim
2. A(n) \_\_\_ estate represents the most complete form of ownership of real estate; the owner is free to divide it up into lesser estates and sell, lease, or borrow against them as he or she wishes.
   1. Fee simple
   2. Freehold
   3. Leasehold
   4. Life
   5. Outright
3. Mr. Smith has allowed Mrs. Jones to run a sewer line through Mr. Smith’s backyard so that Mrs. Jones has access to the city sewer system. This is an example of a(n):
   1. Easement
   2. Encumberance
   3. Estate for years
   4. Title assurance

1. Which type of deed offers the grantee the MOST protection? (A) Quitclaim deed

(B) Special warranty deed

(C) General warranty deed

(D) Officer’s deed

1. What term BEST describes a person that owns a property and is conveying title to the property to another person?

(A) Mortgagor

(B) Grantor

(C) Mortgagee

(D) Grantee

1. What type of estate lasts for an indefinite period of time?

(A) Freehold estate

(B) Estate from year to year

(C) Leasehold estate

(D) Estate for years

1. Which of the following is NOT a good method of title assurance?)

(A) Seller provides a warranty in the deed

(B) An attorney searches recorded documents

(C) Title insurance is purchased

(D) Seller provides a quitclaim deed

1. Which of the following documents conveys title to a property at the time the purchaser completes the performance of the obligation called for in the document?

(A) Junior mortgage

(B) Package mortgage

(C) Purchase-money mortgage

(D) Land contract

1. What legal document conveys title from one person to another?

(A) Mortgage

(B) Note

(C) Deed

(D) Title

1. A historical summary of the publicly-recorded documents that affect the ownership of a property is know as a(n):

(A) Estate

(B) Deed

(C) Abstract of title

(D) Lien

1. Which of the following is FALSE regarding a tax sale?

(A) An accurate and complete description of the property is required to be posted for possible purchasers before the sale

(B) The property owner may not have had a court appearance through due process, thus creating a cloud on the title

(C) The line of authority for the sale may not be clear

(D) The purchaser is usually expected to pay all delinquent taxes at the time of sale

1. A reversion and a remainder are similar in that:

(A) Both can be sold or mortgaged

(B) Both cause the property to go back to the grantor after the sale

(C) Neither is an actual interest in the property

(D) Neither is considered a future estate

1. Which of the following is FALSE concerning Mechanic’s Liens?

(A) Gives the right to attach a lien on real estate

(B) Can get money through forcing judicial sale

(C) Lasts even after the bill for labor and materials has been paid

(D) Might not be disclosed by the public records

**CHAPTER 2**

**Real Estate Financing: Notes and Mortgages**

1. 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:
   1. Assumption
   2. Non-recourse
   3. Open-end
   4. Subordination
2. A “short sale” of real estate is:
   1. A sale that closes in less than 30 days
   2. 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
   3. A sale in which the proceeds from the sale are less than the balance owed on the loan secured by the property sold
   4. A sale in which the balance owed on the loan secured by the property sold is less than the proceeds from the sale
3. Which of the following situations is NOT a common cause for the use of a purchase-money mortgage?

(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

1. Which of the following is NOT a minimum mortgage requirement?

(A) Description of the property

(B) Covenant of warranty

(C) Prepayment clause

(D) Covenant of seizing

1. A mortgage is BEST defined as a legal document that:

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

(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

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

(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

1. Which of the following terms refers to an owner’s right to redeem a property after foreclosure?

(A) Equity of redemption

(B) Statutory redemption

(C) Attachment

(D) Execution

1. 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?

(A) Borrower

(B) Trustee

(C) Holder of the note

(D) Grantor

1. 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?

(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

1. A property is encumbered as follows:

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

(B) $40,000

(C) $300,000

(D) $50,000

1. Which of the following types of bankruptcy is filed with the end result of liquidating the debtor’s assets?

(A) Chapter 7

(B) Chapter 11

(C) Chapter 13

(D) Chapter 17

1. Which of the following types of bankruptcy is available to a business to reorganize and rehabilitate the debtor?

(A) Chapter 7

(B) Chapter 11

(C) Chapter 13

(D) Chapter 17