

Personal Finance, 6e (Madura)
Chapter 10 Purchasing and Financing a Home

10.1 How Much Can You Afford?

1) Most individuals pay for a home with a down payment of 5% or less and then obtain a mortgage to finance the rest.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) In determining the amount of down payment and monthly mortgage payments you can afford, you should maintain some extra funds for liquidity purposes to cover unanticipated bills.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) Your monthly payments for a house are likely to be as high as rent when you factor in mortgage payments, property taxes, homeowner's insurance, and home repairs.

Answer: TRUE

Diff: 2

Question Status: Previous edition

4) If a person chooses to purchase a more expensive home, he or she may have to cut expenses in other areas such as entertainment.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) When choosing a home, a convenient location can save you considerable travel time and expenses.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) Since most of the problems have already been fixed, older homes usually have lower maintenance expense than newer homes.

Answer: FALSE

Diff: 1

Question Status: Previous edition

7) You should consider the school system near a home only if you have or are likely to have school-aged children.

Answer: FALSE

Diff: 2

Question Status: Revised

8) The specific location of your home can influence the amount of property taxes and insurance you will pay.

Answer: TRUE

Diff: 1

Question Status: Previous edition

9) Homeowner's association monthly dues generally include water, sewer, garbage, and maintenance or other amenities such as a pool, clubhouse, and a tennis court.

Answer: TRUE

Diff: 1

Question Status: Previous edition

10) Most real estate agents agree that location is the most important influence on a home's future resale value.

Answer: TRUE

Diff: 2

Question Status: Revised

11) When selling a home, which of the following costs will you incur?

A) Loan origination fee

B) Real estate agent's commission

C) Title search and insurance

D) Points

Answer: B

Diff: 2

Question Status: Revised

12) When purchasing a home, which of the following costs will you **not** incur?

A) Origination fee

B) Real estate agent's commission

C) Application fee

D) Appraisal fee

Answer: B

Diff: 1

Question Status: Revised

13) Of the following criteria for selecting a home, which would probably be least important for buyers older than 55?

A) Price

B) Convenient location

C) School system

D) Taxes

Answer: C

Diff: 2

Question Status: Revised

14) Which of the following costs associated with home ownership is hardest to budget?

- A) Insurance
- B) Taxes
- C) Repairs
- D) Mortgage payments

Answer: C

Diff: 2

Question Status: Previous edition

15) To determine how much home you can afford to purchase, you should **not** consider

- A) finding a Web site that has a good mortgage calculator.
- B) looking at your budget, balance sheet, and income statement.
- C) money you might receive if you win a small lottery.
- D) consulting a loan officer.

Answer: C

Diff: 1

Question Status: Revised

16) Most home purchases are made initially

- A) with payments by personal check.
- B) with a 10 to 20% down payment and a mortgage.
- C) with a 5% down payment.
- D) with no down payment.

Answer: B

Diff: 2

Question Status: Previous edition

17) When obtaining a mortgage you should

- A) apply for the maximum amount you can afford, since the house will be an appreciating asset.
- B) let a real estate agent or some other expert choose the type and length of mortgage you will need.
- C) maintain some funds for liquidity purposes to cover unanticipated bills.
- D) be very conservative and apply only for a mortgage amount you can pay off within 10 years.

Answer: C

Diff: 2

Question Status: Revised

18) Owning a home entails all of the following expenses, **except**

- A) renter's insurance.
- B) property taxes.
- C) maintenance expenses.
- D) lost interest on the down payment and closing costs.

Answer: A

Diff: 1

Question Status: Revised

19) Which of the following is most important when selecting a home?

- A) Taxes
- B) Insurance
- C) Resale value
- D) Location

Answer: D

Diff: 1

Question Status: Previous edition

20) The type of home that probably would require the lowest maintenance is a (an)

- A) large home.
- B) older home.
- C) home built by a well-known construction company.
- D) home with a large yard.

Answer: C

Diff: 1

Question Status: Revised

21) Annual property taxes for homes are usually

- A) less than 0.5% of the home value.
- B) 0.5% to 1% of the home value.
- C) 1% to 2% of the home value.
- D) greater than 2% of the home value.

Answer: C

Diff: 2

Question Status: Previous edition

22) Homeowner's association fees are **not**

- A) often used for security guards.
- B) optional for homeowners in the area.
- C) used to maintain common grounds.
- D) often quite high and should be considered when buying a home.

Answer: B

Diff: 1

Question Status: Revised

23) For a conventional mortgage you will typically need a(n) _____ of from 10% to 20% of the selling price of the home you are purchasing.

Answer: down payment

Diff: 1

Question Status: Previous edition

24) When considering "how much home" you can afford, you should consider all of the following, **except**

- A) principal and interest payment.
- B) annual homeowner's insurance premium divided by 12.
- C) homeowner's association monthly fee.
- D) A, B and C should all be considered.

Answer: D

Diff: 1

Question Status: New

25) One disadvantage of a neighborhood with a homeowner's association is that

- A) the association covenants can restrict how you decorate the outside of your home as well as what you store outside on the property.
- B) the association often chooses the trash and other common service companies for all homeowners.
- C) the association maintains the common area so homeowners do not have to.
- D) the association pays for all homeowner's insurance.

Answer: A

Diff: 1

Question Status: New

10.2 Selecting a Home

1) The purchase of a home represents a potential liability if you need to move quickly and the home does not appreciate rapidly in value.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Buying a home may be the single biggest investment you will ever make, so the decision should be taken very seriously.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) Condominiums have the advantages of sharing expenses among owners and giving the owners more privacy than single-family homes.

Answer: FALSE

Diff: 1

Question Status: Previous edition

4) Purchasing a condominium is an alternative to purchasing a detached house but also requires careful consideration of selection criteria.

Answer: TRUE

Diff: 1

Question Status: Revised

5) Real estate brokers usually offer good advice, but since they have a vested interest in you buying from them, you should also factor in your own judgment.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) Since real estate brokers are licensed and bonded, they are required to give you unbiased information about real estate purchases.

Answer: FALSE

Diff: 1

Question Status: Previous edition

7) Online real estate services are more convenient, but usually charge higher commissions than traditional full-service real estate companies.

Answer: FALSE

Diff: 1

Question Status: Revised

8) The first step in the home-buying process should be to

- A) identify the specific home you want to purchase.
- B) determine a realistic price range of homes you can afford.
- C) compare the cost of buying to renting.
- D) find a good real estate broker.

Answer: B

Diff: 2

Question Status: Revised

9) When buying a home, all of the following are factors one should consider, **except**

- A) considering a condominium as an alternative to purchasing a house.
- B) once you decide how much you can afford, identifying a specific home you desire.
- C) borrowing as much as the lender is willing to loan you since the mortgage interest is tax deductible and may result in a larger tax refund.
- D) evaluating the homes for sale in your target area.

Answer: C

Diff: 2

Question Status: Revised

10) When buying a home, all of the following are economic factors one should consider, **except**

- A) the existing interior paint colors.
- B) resale value.
- C) taxes.
- D) maintenance.

Answer: A

Diff: 2

Question Status: Revised

11) Which of the following is true about condominiums?

- A) Each person owns a portion of the land on which a condominium is located.
- B) Maintenance fees of common areas are shared.
- C) They have more privacy than single family homes.
- D) All of the above.

Answer: B

Diff: 2

Question Status: Previous edition

12) Which of the following is **false** about condominiums?

- A) Association dues are required.
- B) An individual owner must mow the grass or make any repairs to the common areas when needed.
- C) They share common areas such as a pool, tennis court, and club house.
- D) They combine funds for maintenance.

Answer: B

Diff: 1

Question Status: Revised

13) Which of the following should **not** be considered when selecting a condominium?

- A) Availability of companies that perform maintenance and repair services in the area
- B) Taxes
- C) Resale value
- D) Association dues

Answer: A

Diff: 1

Question Status: Previous edition

14) An advantage of using online real estate services is that

- A) you have easier access to qualified real estate agents.
- B) the commissions and fees are often less than those charged by traditional full-service real estate agents.
- C) your chances of selling a house are about 50% greater.
- D) you will get a higher price for houses sold or pay lower prices for houses bought.

Answer: B

Diff: 2

Question Status: Revised

15) Is purchasing a home an expense, an investment, or both?

Answer: It is an expense since the interest expense and taxes are tax-deductible. A home builds equity through appreciation, and a loan can be obtained on the equity. Therefore, the purchase of a home is an expense and an investment.

Diff: 1

Question Status: Revised

16) When buying a home, which of the factors below should be considered in the decision process?

- A) Interior paint colors
- B) Homeowner association covenants
- C) How far away it is from the nearest mall
- D) A, B and C are all key considerations.

Answer: B

Diff: 1

Question Status: New

10.3 Valuation of a Home

1) A good way to estimate the market value of a home is to multiply the number of square feet by the average price per square foot of similar homes in the area.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Homes near areas that have just been zoned for industrial use become more valuable.

Answer: FALSE

Diff: 1

Question Status: Revised

3) Proximity to schools can increase home values, while increased distance from schools often lowers home values.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) To simplify and speed up the home-buying process, you should first make a verbal offer to see if the seller is willing to take the price you are willing to offer.

Answer: FALSE

Diff: 1

Question Status: Revised

5) A sales contract stipulates not only the price offered for a home, but also the repairs to be completed and the move-in date requested by the buyer.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) A market analysis is **not**

- A) an estimate of the price of a home.
- B) a guarantee of the price you will receive when selling a home.
- C) based on similar homes in the area.
- D) determined by multiplying the number of square feet in the home by the average price per square foot of comparable homes.

Answer: B

Diff: 1

Question Status: Previous edition

7) Your home value is likely to be higher with all of the following, **except**

- A) being close to a school.
- B) having a convenient location.
- C) being in an area that has just been zoned for industrial use.
- D) being in an area where a large retail business has just moved in.

Answer: C

Diff: 2

Question Status: Previous edition

8) In negotiating a price for the purchase of a home, you should do all of the following, **except**

- A) offer the highest price you can afford first to get the purchase settled quickly.
- B) write up a contract.
- C) assess how market conditions affect the value of the home.
- D) understand that real estate agents are brokers between the buyer and seller.

Answer: A

Diff: 2

Question Status: Revised

9) In negotiating for the purchase of a home, which of the following is unlikely to be included in the negotiating process?

- A) Possession date
- B) Repairs that are to be made
- C) A pile of wood for the fireplace
- D) Cost of moving the buyer's possessions into the home

Answer: D

Diff: 1

Question Status: Revised

10) When a mortgage lender provides loans to borrowers without sufficient income or a down payment, the lender is said to provide a _____ mortgage.

- A) VA
- B) subprime
- C) prime
- D) FHA

Answer: B

Diff: 1

Question Status: Previous edition

11) During the financial crisis of 2008-2009, approximately _____% of subprime mortgages had late payments of at least 30 days.

- A) 25
- B) 75
- C) 5
- D) 50

Answer: A

Diff: 1

Question Status: Previous edition

12) As a result of the financial crisis of 2008-2009, some financial institutions accepted a(n) _____ arrangements in which the lender accepted the proceeds of the sale of a home as full payment on the debt owed even though the proceeds were less than the debt owed.

- A) mortgage modification
- B) foreclosure
- C) refinancing
- D) short-sale

Answer: D

Diff: 1

Question Status: Revised

13) Which of the following does **not** reflect the impact of a strong economy on home prices?

- A) There is a strong desire to purchase homes.
- B) People are more confident that their jobs are secure.
- C) People spend their money more conservatively.
- D) It's easier to obtain financing.

Answer: C

Diff: 1

Question Status: Previous edition

14) All of the following illustrate lessons learned regarding the 2008-2009 financial crisis **except**

- A) housing conditions have a strong impact on the economy.
- B) economic conditions affect the demand for homes.
- C) sellers were able to attract potential buyers by slightly reducing sale prices.
- D) allowing unqualified mortgage applicants to qualify for mortgages hurt the housing market.

Answer: C

Diff: 1

Question Status: Previous edition

15) You are considering the purchase of a 2,300 square foot house that is being offered for \$238,500. After researching recent home sales in the area, you find three that are comparable. The first was a 2,500 square foot home that sold for \$225,000, the second was a 2,200 square foot home that sold for \$200,000 and the third was a 2,000 square foot home that sold for \$178,000. Based on your analysis, what would be a reasonable offer on the house? (Round all computations to the nearest dollar.)

- A) \$210,000
- B) \$207,000
- C) \$205,000
- D) \$201,000

Answer: B

Explanation: B)

$$\$225,000/2,500 \text{ sq. ft.} = \$90$$

$$\$200,000/2,200 \text{ sq. ft.} = \$91 \text{ (rounded)}$$

$$\$178,000/2,000 \text{ sq. ft.} = \underline{\$89}$$

$$\$270/3 = \$90 \text{ sq. ft.} \times 2,300 \text{ sq. ft.} = \$207,000$$

Diff: 2

Question Status: Previous edition

16) Nathaniel and Kimberly want to make an offer on a 2,200 square foot home that is priced at \$212,000. They research other home prices and find the following information: a 2,400 square foot home sold for \$220,000; a 1,800 square foot home sold for \$168,000; a 2,000 square foot home sold for \$185,000. Based on your analysis, what reasonable offer should Nathaniel and Kimberly make on the house? (Round all computations to the nearest dollar.)

- A) \$212,000
- B) \$200,400
- C) \$204,600
- D) \$194,000

Answer: C

Explanation: C)

$$\$220,000/2,400 \text{ sq. ft.} = \$92 \text{ (rounded)}$$

$$\$168,000/1,800 \text{ sq. ft.} = \$93 \text{ (rounded)}$$

$$\$185,000/2,000 \text{ sq. ft.} = \underline{\$93} \text{ (rounded)}$$

$$\$278/3 = \$93 \text{ sq. ft.} \times 2,200 \text{ sq. ft.} = \$204,600$$

Diff: 2

Question Status: Revised

17) Before you buy a house, you should conduct a(n) _____ to determine if the price is comparable to similar houses in the area.

Answer: market analysis

Diff: 1

Question Status: Previous edition

18) Lucky Louie is putting together an offer on a previously owned home he wants to buy. The home has 2,200 square feet of living space and is priced at \$225,000. Upon his inspection, the condition of the roof is not good, and the central air system is on its last leg. Louie estimates replacement costs for these two systems to be a minimum of \$17,000. Recent comps in the neighborhood show a 2,400 square foot house in good condition having sold for \$245,000 just one month ago. What should Louie offer?

- A) \$225,000
- B) \$206,000
- C) \$208,000
- D) Stay away from a house needing major system repairs.

Answer: C

Diff: 3

Question Status: New

19) Before buying a house you should do the following.

- A) Have your real estate agent complete a market price analysis for comparable properties
- B) Have a certified home inspector complete an inspection of the home inside and out
- C) Check your budget to make sure the home including all associated costs is affordable
- D) A, B and C are all important.

Answer: D

Diff: 2

Question Status: New

10.4 Transaction Costs of Purchasing a Home

1) For a conventional mortgage, a lender typically requires a down payment of 10 to 20% of the home's selling price.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Government-backed mortgages may require lower down payments than conventional mortgages, but usually charge higher interest rates.

Answer: FALSE

Diff: 1

Question Status: Previous edition

3) In addition to closing costs, real estate agent fees of more than 10% are charged when you buy a home.

Answer: FALSE

Diff: 1

Question Status: Revised

4) When buying a home, the seller pays the real estate agent's commission, so you pay no fee for the agent's services except in the form of a higher purchase price.

Answer: TRUE

Diff: 1

Question Status: Revised

5) A point is a flat fee of \$500 for each multiple of \$100,000 that you finance on a new home.

Answer: FALSE

Diff: 1

Question Status: Previous edition

6) A _____ is responsible for determining the value of the home as part of the loan process.

A) banker

B) loan officer

C) real estate appraiser

D) real estate agent

Answer: C

Diff: 2

Question Status: Previous edition

7) All the following information, **except** _____, can be found on a variety of Web sites about mortgages.

A) projected rate increases

B) loan rates, length of loan, and principal

C) loan applications

D) background on different mortgage companies

Answer: A

Diff: 1

Question Status: Revised

8) Which of the following is **not** true?

A) A conventional mortgage requires a 10-20% down payment.

B) With government-backed loans, the government insures the loan in the event of default.

C) Veterans Administration mortgages are extended to most first-time homebuyers.

D) Government-backed mortgages may require lower down payments than conventional mortgages.

Answer: C

Diff: 1

Question Status: Previous edition

9) Which of the following is true?

- A) Loan origination fees are around 10-20 percent.
- B) Loan application fees range from \$100 to \$500.
- C) Points are \$100-\$200 per \$1,000 of the home's value.
- D) Appraisal costs range between 15% and 20% of the value of the home.

Answer: B

Diff: 2

Question Status: Revised

10) Which of the following would **not** be included in closing costs?

- A) Points
- B) Earnest money
- C) Title charges
- D) Recording fees

Answer: B

Diff: 1

Question Status: Previous edition

11) On the purchase of a home, one "point" is equal to

- A) \$100.
- B) \$1,000.
- C) 1% of the amount being financed.
- D) 1% of the purchase price.

Answer: C

Diff: 2

Question Status: Previous edition

12) Points paid at closing represent

- A) a fee paid to the lender.
- B) part of the loan principal.
- C) the property tax rate.
- D) the interest rate on the mortgage.

Answer: A

Diff: 1

Question Status: Revised

13) If you obtain an FHA or VA loan you will make additional payments each month to cover your home insurance and property taxes that will be placed in an account called a(n)

- A) insurance account.
- B) appraisal account.
- C) escrow account.
- D) default prevention account.

Answer: C

Diff: 1

Question Status: Previous edition

14) One point on an \$80,000 loan for the purchase of a \$110,000 home would equal

- A) \$100.
- B) \$800.
- C) \$1,000.
- D) \$1,100.

Answer: B

Diff: 1

Question Status: Previous edition

15) Of the following fees involved in the purchase of a house, which is usually not borne by the purchaser?

- A) Title search and insurance
- B) Appraisal fee
- C) Real estate broker's commission
- D) Loan application fee

Answer: C

Diff: 2

Question Status: Previous edition

16) By shopping around, a homeowner can probably avoid which of the following fees?

- A) Title search
- B) Title insurance
- C) Appraisal fee
- D) Loan origination fee

Answer: D

Diff: 2

Question Status: Revised

17) Chuck obtained a mortgage of \$90,000 to finance a \$120,000 home. The title search will be \$400, appraisal fee \$500, application fee \$900, and he will pay 1% origination fee. How much are his closing costs?

- A) \$900
- B) \$1,800
- C) \$2,700
- D) \$3,000

Answer: C

Explanation: C)

Title search	\$400
Appraisal fee	\$500
Application fee	\$900
Origination fee ($\$90,000 \times 0.01$)	<u>\$900</u>
	\$2,700

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) title search and insurance, appraisal fee, and other costs
- B) fees that are a percentage of the purchase price and are paid by the borrower to the lender to obtain a reduction in the interest rate

18) Points
Diff: 1
Question Status: New

19) Closing costs
Diff: 1
Question Status: New

Answers: 18) B 19) A

20) List four key components of closing costs.
Answer: Any combination of the following: title search, title insurance, appraisal, points, and origination fees.
Diff: 1
Question Status: Previous edition

21) Which of the following is true of private mortgage insurance?
A) It generally is required if the borrower makes a down payment of less than 20%.
B) It costs \$20 to \$25 per year.
C) It protects the borrower in the event that the lender goes bankrupt.
D) It is another name for title insurance.
Answer: A
Diff: 1
Question Status: New

22) All of the following are true of FHA loans, **except**
A) they are provided by private lenders but guaranteed by the FHA.
B) they enable lower and middle income individuals to obtain mortgage financing.
C) they are required for mortgages larger than \$300,000.
D) it is another name for title insurance.
Answer: C
Diff: 2
Question Status: New

23) Lucky Louie qualified for a \$250,000 mortgage for his new home. The loan application was \$400, closing attorney fee \$500, appraisal fee \$400, title insurance \$1200, document fee \$75, credit check \$50. The loan requires a 1% origination fee plus 1 point (1 %) interest to buy down the rate. How much are Louie's total closing costs?

- A) \$5,500
- B) \$7,625
- C) WOW!
- D) \$5,125

Answer: B

Diff: 2

Question Status: New

10.5 Financing with a Fixed-Rate Mortgage

1) There are a number of different mortgage types to choose from in financing a house or condominium, such as fixed or variable loans for 15 or 30 years.

Answer: TRUE

Diff: 1

Question Status: Revised

2) The schedule that shows your monthly home payment and the amounts applied to principal and interest each month is called a depreciation table.

Answer: FALSE

Diff: 1

Question Status: Revised

3) For a long-term home loan, such as 30 years, the amount of principal you pay on your loan during the first few years is quite small.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) In comparing a 15- and 30-year mortgage, over the life of the loan you will have smaller payments but pay more interest with the 15-year mortgage.

Answer: FALSE

Diff: 1

Question Status: Revised

5) On a fixed rate mortgage, the monthly

- A) payment remains constant and the interest rate fluctuates.
- B) payment remains constant and interest rate stays the same.
- C) rate varies and the interest rate varies.
- D) payment remains constant until the balloon payment.

Answer: B

Diff: 1

Question Status: Revised

- 6) Fixed rate mortgages usually have
- A) the same interest rate.
 - B) an adjustable rate.
 - C) a balloon payment.
 - D) different monthly payments depending upon the interest rate.

Answer: A

Diff: 1

Question Status: Revised

- 7) When homeowners expect that interest rates will rise, they prefer
- A) fixed rate loans.
 - B) adjustable rate mortgages.
 - C) balloon payment mortgages.
 - D) decreasing term mortgages.

Answer: A

Diff: 1

Question Status: Revised

- 8) A 15-year mortgage compared to a 30-year mortgage has all of the following **except**
- A) a lower appraisal fee.
 - B) less interest over the life of the loan.
 - C) higher payments.
 - D) a faster buildup of equity.

Answer: A

Diff: 1

Question Status: Revised

- 9) During a period when interest rates are very low by historical standards and are expected to increase substantially over time, individuals should choose
- A) an ARM with a rate that adjusts after three years.
 - B) a fixed-rate mortgage.
 - C) an ARM that adjusts after one year.
 - D) an ARM with a rate that adjusts every year for five years and then converts to a fixed rate.

Answer: B

Diff: 3

Question Status: New

- 10) If you wish to keep your monthly payments as low and predictable as you can, you should use a
- A) 15-year ARM.
 - B) 30-year ARM.
 - C) 15-year fixed rate.
 - D) 30-year fixed rate.

Answer: D

Diff: 2

Question Status: Previous edition

11) Over the life of a mortgage, the payment to principal _____ and the portion to interest expense _____.

- A) increases; increases
- B) decreases; increases
- C) increases; decreases
- D) decreases; decreases

Answer: C

Diff: 2

Question Status: Previous edition

12) An amortization schedule shows all but the

- A) principal portion of the payment.
- B) interest portion of the payment.
- C) increase in market value.
- D) beginning and ending balances.

Answer: C

Diff: 1

Question Status: Previous edition

13) The schedule that discloses the monthly payment that you will make, based on a specific mortgage amount, a fixed interest rate level, and maturity is called a(n)

- A) depreciation schedule.
- B) payment table.
- C) amortization table.
- D) obligation schedule.

Answer: C

Diff: 1

Question Status: Previous edition

14) Making extra mortgage payments does which of the following?

- A) Increases the total amount of interest paid
- B) Reduces the length of the loan
- C) Decreases net worth
- D) Increases the points charged

Answer: B

Diff: 1

Question Status: Previous edition

15) The size of the monthly payment on a mortgage is **not** dependent on the

- A) principal borrowed.
- B) interest rate.
- C) maturity.
- D) broker's commission.

Answer: D

Diff: 1

Question Status: Previous edition

16) Greg and Kathy are considering purchasing a home requiring an \$85,000 mortgage. The payment on a 30-year mortgage for this amount is \$605. The payment for a 15-year mortgage is \$752. What is the additional amount of interest paid on the 30-year mortgage?

- A) \$82,440
- B) \$52,920
- C) \$135,360
- D) \$26,460

Answer: A

Explanation: A)

$$360 \times \$605 = \$217,800$$

$$180 \times \$752 = \underline{\$135,360}$$

$$\$82,440$$

Diff: 1

Question Status: Previous edition

17) Tiffany and Jason want to obtain a \$72,000 mortgage. Their payments would be \$730 for a 15-year mortgage and \$579 for a 30-year mortgage. What would be their total savings in interest by using a 15-year mortgage?

- A) \$27,180
- B) \$54,360
- C) \$77,040
- D) \$131,400

Answer: C

Explanation: C)

$$360 \text{ months} \times \$579 = \$208,440$$

$$180 \text{ months} \times \$730 = \underline{\$131,400}$$

$$\text{Savings in interest} \quad \$77,040$$

Diff: 2

Question Status: Revised

18) If the interest rate on your home mortgage will not change over the life of the loan you have a(n) _____.

Answer: fixed-rate mortgage

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) schedule of payments, interest expense, and balance
- B) fixed interest rate until maturity

19) fixed-rate mortgage

Diff: 1

Question Status: New

20) amortization schedule

Diff: 1

Question Status: New

Answers: 19) B 20) A

10.6 Financing with Adjustable-Rate Mortgages

1) If you think interest rates will rise in the near future, you should seek an adjustable rate mortgage (ARM).

Answer: FALSE

Diff: 2

Question Status: Revised

2) Since there is no limit on how much and how fast adjustable rate mortgages (ARMs) can increase, most homeowners are afraid to take out this kind of loan.

Answer: FALSE

Diff: 1

Question Status: Revised

3) Caps on adjustable-rate mortgages refer only to the maximum fluctuation in interest rates.

Answer: FALSE

Diff: 1

Question Status: Previous edition

4) Adjustable-rate mortgages are riskier than fixed-rate mortgages. However, they may be useful when the interest rate is expected to _____ in the future.

A) increase

B) decrease

C) remain stable

D) None of the above.

Answer: B

Diff: 1

Question Status: Previous edition

- 5) The term *ARM* stands for
- A) alliance rated mortgage.
 - B) adjustable-rate mortgage.
 - C) American Realty Mortgage.
 - D) American rated mortgage.

Answer: B

Diff: 1

Question Status: Previous edition

- 6) The initial rate on an ARM will typically be
- A) relatively low, which benefits the homeowner.
 - B) relatively high to allow the bank to recoup costs.
 - C) about the same as a fixed rate loan on the same maturity.
 - D) set by state law.

Answer: A

Diff: 1

Question Status: Revised

- 7) A mortgage where the interest owed changes in response to movements in a specific market-determined interest rate is called a(n)

- A) HELOC.
- B) fixed-rate mortgage.
- C) adjustable-rate mortgage.
- D) second mortgage.

Answer: C

Diff: 1

Question Status: Previous edition

- 8) The interest rate on an ARM may be adjusted
- A) once a year.
 - B) every three years.
 - C) every five years.
 - D) Any of the above depending on the terms of the loan.

Answer: D

Diff: 2

Question Status: Previous edition

- 9) Which of the following is **not** true concerning adjustable rate mortgages (ARMs)?
- A) There is usually a limit on how much a rate may increase per year.
 - B) There is usually no limit on how much a rate may increase per year.
 - C) There is usually a limit on how much a rate may increase over the life of the loan.
 - D) The maximum increase over the life of the loan is usually 5%.

Answer: B

Diff: 2

Question Status: Revised

10) While interest rates have been historically low for the past 8 years, rates are expected to begin to increase over the coming couple of years. Given the interest rate environment, which type of mortgage would be best for your new home?

- A) Variable rate interest only mortgage since the payments would be the lowest
- B) A 5 year adjustable ARM
- C) A 30 year conventional fixed rate mortgage
- D) A one year adjustable ARM with a 6% cap

Answer: C

Diff: 2

Question Status: New

11) You currently have a 5 year adjustable variable rate mortgage which is 4 years into the adjustment period. The current interest rate is 3.5% per annum, and the rate is indexed to the 10 year Treasury note which is currently yielding 2.15%. Most financial forecasters are anticipating rate increases over the 2016-2017 period, but there is no consensus on the total amount of the increases. Given the interest rate environment, what would be the best course of action for your mortgage?

- A) Double up on payments and pay it off in half of the term.
- B) Refinance at the conventional 30 year fixed rate currently offered at 3.75%.
- C) Stick with your existing mortgage since it is currently 3.5% and below the offered fixed rate.
- D) Refinance into a 1 year ARM so that when rates decrease you will be in a better position.

Answer: B

Diff: 3

Question Status: New

10.7 Decision to Own Versus Rent a Home

1) Renting is almost always a better financial option since owning a home has so many costs such as maintenance, insurance, and taxes.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) Which of the following would you **not** factor into a decision to buy or rent a house?

- A) The return you can receive on investing your money
- B) Current mortgage rates on 30-year fixed rate mortgages
- C) The value you place on your pride of ownership
- D) All of the above should be considered in the decision

Answer: D

Diff: 1

Question Status: Revised

- 3) The total cost of owning a home versus renting is calculated by
- A) adding up the repair and maintenance expenses associated with the home.
 - B) subtracting the tax savings from the mortgage interest expense and taxes.
 - C) subtracting the expected value of the equity of the home at the end of the period.
 - D) All of the above.

Answer: D

Diff: 2

Question Status: Previous edition

- 4) If the rent on an apartment is \$600 per month, which is equal to a mortgage payment on a house, how much additional tax savings will you realize if \$200 of the monthly mortgage payment is interest and your tax bracket is 25%?

- A) \$50
- B) \$600
- C) \$2,500
- D) \$7,200

Answer: B

Explanation: B) $\$200 \text{ monthly interest} \times 12 \text{ months} \times 0.25 \text{ tax rate} = \600

Diff: 2

Question Status: Revised

- 5) In the decision to rent or purchase a home the _____ of any security deposit that you would put down on a rental home must be part of the decision.

Answer: opportunity cost

Diff: 1

Question Status: Previous edition

10.8 Special Types of Mortgages

- 1) A balloon payment mortgage starts with higher payments, which decrease as the mortgage is paid off.

Answer: FALSE

Diff: 1

Question Status: Previous edition

- 2) If you anticipate your income rising slowly but steadily over the years, you may want to consider a

- A) 30-year fixed rate mortgage.
- B) 15-year ARM.
- C) graduated payment mortgage.
- D) balloon payment mortgage.

Answer: C

Diff: 2

Question Status: Revised

3) The type of mortgage that is usually the shortest term and will require further action at the end of it is a(n)

- A) graduated payment mortgage.
- B) balloon payment mortgage.
- C) adjustable rate mortgage.
- D) fixed rate mortgage.

Answer: B

Diff: 2

Question Status: Previous edition

4) Which of the following statements about interest-only mortgages is **not** true?

- A) Interest-only mortgages cannot be Qualified Mortgages under The Consumer Financial Protection Bureau's rules.
- B) Mortgage payments may increase abruptly.
- C) Interest-only mortgages allow the borrower to pay only interest for the life of the mortgage.
- D) Interest-only mortgages were popular before the financial crisis.

Answer: C

Diff: 2

Question Status: Revised

10.9 Mortgage Refinancing

1) Refinancing a home requires you to pay many of the same costs as the original loan and should therefore be thoroughly investigated.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Refinancing a home is usually worthwhile when

- A) interest rates have risen.
- B) you can increase your monthly payment considerably.
- C) you will live in your home long enough to recoup the closing costs.
- D) you plan on moving in less than a year.

Answer: C

Diff: 1

Question Status: Previous edition

3) Which of the following is the primary reason that a mortgage lender may allow a rate modification to an existing mortgage holder with a fixed-rate mortgage?

- A) The lender receives a one-time fee.
- B) The borrower may obtain a new mortgage from another lender.
- C) The borrower receives a lower interest rate.
- D) The borrower does not have to pay closing costs.

Answer: B

Diff: 1

Question Status: Revised

4) If a current mortgage payment of \$792 per month can be reduced to \$578 per month by refinancing, how many months would you need to remain in the house to recoup refinancing charges of \$3,784? (Round up to the nearest month.)

- A) Five months
- B) Seven months
- C) Eighteen months
- D) The maturity of the loan

Answer: C

Explanation: C) $\$3,784 / (\$792 - \$578) = 17.68$ months or 18 months (rounded)

Diff: 1

Question Status: Previous edition

5) If you are not planning to stay in your current house for very long, _____ would probably not be advantageous.

Answer: mortgage refinancing

Diff: 1

Question Status: Previous edition

10.10 How a Mortgage Fits Within Your Financial Plan

1) One goal of mortgage financing should be selecting the type of mortgage that results in the highest interest expense.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) Describe how a mortgage and other related expenses affect a personal budget, income statement, and balance sheet.

Answer: Mortgage expense and taxes reduce your wealth while principal payments increase equity. Ordinary repairs reduce wealth, while a home addition contributes to equity. The home is an asset and the mortgage is a liability. It takes more budgeting for unexpected repairs for a home than renting.

Diff: 1

Question Status: Previous edition

3) Describe some of the advantages and disadvantages of purchasing a home yourself instead of renting.

Answer:

Advantages: Purchasing a home provides more privacy, offers tax savings, and builds equity.

Disadvantages: Renting provides more flexibility, and you do not have the cost of home maintenance and property taxes. Renter's insurance is probably less expensive than homeowner's insurance.

Diff: 2

Question Status: New