# University of Central Florida (UCF) REE3043 Fundamentals of Real Estate Practice Exam 4 (Sample)

Study Guide



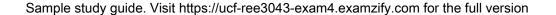
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## **Questions**



- 1. What is the net loan proceeds for a loan with an initial balance of \$150,307.57, a monthly payment of \$1,000, and discount points of 3.53%?
  A. 140,000
  B. 145,000
  C. 150,000
  D. 155,000
- 2. Who is the mortgagor in a mortgage agreement?
  - A. The lender
  - B. The borrower
  - C. The real estate agent
  - D. The closing attorney
- 3. What is the insurance's loss responsibility when given a purchase price of \$200,000, an appraisal amount of \$200,000, and a loan amount of \$190,000 with 30% coverage?
  - A. \$57,000
  - B. \$60,000
  - C. \$63,000
  - D. \$50,000
- 4. If you default on a loan and the lender sells the home for less than the outstanding balance, but you had PMI, what will affect the lender's loss?
  - A. Payment history
  - B. Loan amount
  - C. Coverage percentage of PMI
  - D. Property value change
- 5. What does the term "secondary market" refer to in mortgage banking?
  - A. Initial loan issuance
  - B. Sale of existing loans
  - C. Loan servicing after origination
  - D. Loan underwriting processes

- 6. When does the interest on a home equity loan typically become tax-deductible?
  - A. Only during the first year of the loan
  - B. If used for major repairs or renovations
  - C. For any amount borrowed
  - D. After the loan is paid in full
- 7. What is a piggyback loan designed to achieve?
  - A. To obtain a higher loan amount
  - B. To pair a second mortgage with an underlying first mortgage
  - C. To increase monthly payments
  - D. To lower interest rates
- 8. Which element is commonly included in the mortgage loan closing process?
  - A. Appraisal of the property
  - B. Legal representation of the borrower only
  - C. Inspection of adjacent properties
  - D. Preparation by the seller's agent only
- 9. What is the primary benefit of utilizing the four channels of the US mortgage system?
  - A. Reducing interest for borrowers
  - B. Providing variety and accessibility to mortgage loans
  - C. Standardizing loan applications
  - D. Controlling federal regulations on lending
- 10. In what situation might a demand clause be especially important for a lender?
  - A. When a borrower is consistently late on payments
  - B. When the property rapidly appreciates
  - C. If the borrower is under bankruptcy protection
  - D. During fixed-rate periods

## **Answers**



- 1. B
- 2. B
- 3. A
- 4. C
- 5. B
- 6. B
- 7. B
- 8. A
- 9. B
- 10. A

# **Explanations**



- 1. What is the net loan proceeds for a loan with an initial balance of \$150,307.57, a monthly payment of \$1,000, and discount points of 3.53%?
  - A. 140,000
  - B. 145,000
  - C. 150,000
  - D. 155,000

To determine the net loan proceeds, it's essential to consider the initial loan amount and subtract any costs associated with securing the loan, in this case, the discount points. The given initial balance of the loan is \$150,307.57, and the discount points are expressed as a percentage of that balance. Specifically, discount points are prepaid interest lenders charge to lower the interest rate on the loan. Each point typically costs 1% of the loan amount. Calculating the amount deducted for the discount points involves multiplying the initial loan amount by the discount points percentage. Here, the calculation would be as follows: 1. Calculate the dollar value of the discount points: \[ \text{Discount Points} = 150,307.57 \times 0.0353 = 5,299.80 \] 2. Now, subtract the discount points from the initial loan amount to find the net loan proceeds: \[ \text{Net Loan Proceeds} = 150,307.57 - 5,299.80 = 145,007.77 \] When rounded to the nearest whole number, this gives us net loan proceeds of approximately \$145,008. Since the closest answer choice

- 2. Who is the mortgagor in a mortgage agreement?
  - A. The lender
  - B. The borrower
  - C. The real estate agent
  - D. The closing attorney

In a mortgage agreement, the mortgagor is defined as the borrower, which is the party that is receiving the loan to purchase or refinance a property. The mortgagor pledges the property as collateral for the loan, and in doing so, grants the lender certain rights over the property until the debt is repaid in full. This relationship is fundamental to understanding how mortgage agreements function, as it establishes the obligations of the borrower to repay the loan, along with the rights of the lender to foreclose on the property if the borrower defaults. The role of the borrower as the mortgagor is crucial in the context of real estate finance, outlining their responsibility and the reciprocal nature of the loan agreement.

- 3. What is the insurance's loss responsibility when given a purchase price of \$200,000, an appraisal amount of \$200,000, and a loan amount of \$190,000 with 30% coverage?
  - A. \$57,000
  - B. \$60,000
  - C. \$63,000
  - D. \$50,000

To determine the insurance's loss responsibility given the purchase price, appraisal amount, loan amount, and coverage percentage, you first need to establish the actual coverage amount provided by the insurance company. In this case, the purchase price and appraisal amount are both \$200,000, indicating that the property value is well-established at this figure. The loan amount is \$190,000, which is less than both the purchase price and the appraisal amount, meaning that the property is not over-leveraged. The insurance coverage is specified as 30%. To calculate the amount of loss responsibility, you take 30% of the property value. This is done by calculating 30% of the purchase price or appraisal amount (both are the same in this case): 30% of \$200,000 equals \$60,000. However, when calculating loss responsibility for insurance, you must also consider the loan coverage aspect. The maximum amount the insurance will cover is either the calculated amount or the loan amount, whichever is less. In this scenario, since the loan amount is \$190,000, the loss responsibility remains capped at \$60,000 since that is the calculated coverage. However, it seems there might be additional context or adjustments needed that relate to how

- 4. If you default on a loan and the lender sells the home for less than the outstanding balance, but you had PMI, what will affect the lender's loss?
  - A. Payment history
  - B. Loan amount
  - C. Coverage percentage of PMI
  - D. Property value change

When you default on a loan and the lender sells the home for less than what you owe, the lender faces a potential loss on the outstanding balance. Private Mortgage Insurance (PMI) is designed to protect the lender in such situations. The coverage percentage of PMI is crucial because it determines how much of the lender's loss can be covered by the insurance policy. If PMI provides coverage for a certain percentage of the loan amount, this will directly reduce the lender's financial loss when a property is sold for less than the remaining mortgage balance. For instance, if the PMI covers 20% of the loan amount and the loss amounts to a certain figure, the lender can claim that percentage back through the insurance, thereby affecting the remainder of the loss they must absorb. In contrast, while payment history, loan amount, and property value change are important factors in the overall context of the loan and the default situation, they do not directly impact the extent to which PMI can mitigate the lender's loss in this specific scenario. Thus, the coverage percentage of PMI plays a pivotal role in determining how much of the lender's loss can be offset.

- 5. What does the term "secondary market" refer to in mortgage banking?
  - A. Initial loan issuance
  - B. Sale of existing loans
  - C. Loan servicing after origination
  - D. Loan underwriting processes

The term "secondary market" in mortgage banking specifically refers to the sale of existing loans. This market allows lenders to sell the mortgages they have originated to other financial institutions or investors. The purpose of the secondary market is to provide liquidity to lenders, enabling them to free up capital to issue more loans. When loans are sold in the secondary market, they are usually pooled together and may be securitized into mortgage-backed securities. This process is critical for the overall functioning of the mortgage industry, as it helps maintain the flow of mortgage credit and influence interest rates. On the other hand, the initial loan issuance pertains to the primary market, where loans are made directly to borrowers. Loan servicing involves managing the ongoing administration of mortgage loans after they are originated, ensuring that payments are processed and managing escrow accounts. Loan underwriting encompasses the evaluation process that lenders use to assess the risk of lending to borrowers, which occurs before loans are issued. These aspects are all part of the broader mortgage banking process but do not relate to the secondary market specifically.

- 6. When does the interest on a home equity loan typically become tax-deductible?
  - A. Only during the first year of the loan
  - B. If used for major repairs or renovations
  - C. For any amount borrowed
  - D. After the loan is paid in full

The interest on a home equity loan typically becomes tax-deductible if the funds are used for major repairs or renovations to the borrower's primary residence or a second home. This aligns with IRS guidelines that stipulate interest deductions can be claimed for home equity loans when the money is used to substantially improve the property. The underlying principle is that the loan must be secured by the homeowner's equity in the home and the proceeds must be used for qualifying purposes that enhance the value of the property. Many homeowners leverage home equity loans specifically for home improvements because these enhancements can increase the residence's market value, ultimately benefiting the owner. In contrast, if the loan amount is used for non-qualifying purposes, such as paying off credit card debt or other expenses, then the interest would generally not be deductible. The other choices do not accurately reflect the conditions under which interest on a home equity loan is tax-deductible. It is not limited to just the first year or applicable to any amount borrowed without restrictions. Additionally, interest cannot be deducted after the loan is paid in full, as the tax-deductible status is only relevant during the loan's active term when interest payments are made.

### 7. What is a piggyback loan designed to achieve?

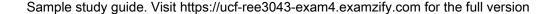
- A. To obtain a higher loan amount
- B. To pair a second mortgage with an underlying first mortgage
- C. To increase monthly payments
- D. To lower interest rates

A piggyback loan is primarily designed to pair a second mortgage with an underlying first mortgage. This financial strategy is often used by homebuyers to avoid private mortgage insurance (PMI) when their down payment is less than 20% of the property's purchase price. By taking out a piggyback loan, borrowers can finance a portion of their home purchase through the second mortgage while keeping the first mortgage at a desired loan-to-value ratio. This arrangement allows the borrower to effectively use both loans to cover the total cost of the home, thereby facilitating home purchases that may otherwise be financially unfeasible due to PMI costs. In typical situations, a piggyback loan consists of an 80-10-10 structure, where the first mortgage covers 80% of the home's purchase price, the second mortgage (the piggyback loan) covers 10%, and the borrower puts down the remaining 10%. This approach achieves the goal of minimizing additional insurance costs while also enabling buyers to access more favorable loan conditions.

#### 8. Which element is commonly included in the mortgage loan closing process?

- A. Appraisal of the property
- B. Legal representation of the borrower only
- C. Inspection of adjacent properties
- D. Preparation by the seller's agent only

In the mortgage loan closing process, the appraisal of the property is a critical component as it helps determine the fair market value of the property being purchased. Lenders require an appraisal to ensure that the value of the property is sufficient to secure the loan amount being requested by the borrower. This protects both the lender and the borrower by confirming that the investment is sound and that the property is worth the amount being financed. An appraisal typically involves a professional appraiser evaluating the property's condition, features, and location, comparing it with similar properties that have recently sold in order to establish its fair market value. This step is essential because it helps mitigate the risk for the lender and ensures that the borrower isn't overpaying for the property they wish to purchase. Other options such as legal representation of the borrower only, inspection of adjacent properties, and preparation by the seller's agent only do not reflect common or necessary elements in the mortgage loan closing process. Legal representation is usually provided for both parties in the transaction, a property appraisal is specific to the property being financed rather than adjacent properties, and preparation responsibilities are more collaborative rather than limited to one party.



- 9. What is the primary benefit of utilizing the four channels of the US mortgage system?
  - A. Reducing interest for borrowers
  - B. Providing variety and accessibility to mortgage loans
  - C. Standardizing loan applications
  - D. Controlling federal regulations on lending

The primary benefit of utilizing the four channels of the US mortgage system is the provision of variety and accessibility to mortgage loans. This system encompasses different entities such as banks, credit unions, mortgage companies, and government agencies, which together offer a wide range of mortgage products to meet diverse borrower needs. By having multiple channels, borrowers can access various loan types, interest rates, qualifying requirements, and payment terms that fit their individual financial situations. This variety helps ensure that more people can find suitable financing options, whether they are first-time homebuyers, looking to refinance, or interested in investment properties. The accessibility provided by these multiple channels helps to promote homeownership and contributes to a more robust housing market, accommodating a wider spectrum of economic backgrounds and financial qualifications.

- 10. In what situation might a demand clause be especially important for a lender?
  - A. When a borrower is consistently late on payments
  - B. When the property rapidly appreciates
  - C. If the borrower is under bankruptcy protection
  - D. During fixed-rate periods

A demand clause in a loan agreement allows a lender to require repayment of the loan in full under certain conditions. In the context of lending, this clause becomes especially crucial when a borrower is consistently late on payments. When a borrower repeatedly fails to make timely payments, it raises the lender's risk of default. The demand clause gives the lender the option to call the loan due rather than waiting for the scheduled payoff. This safeguard helps lenders mitigate their risk, ensuring they have the ability to reclaim their funds before the situation potentially worsens. In contrast, while property appreciation, bankruptcy protection, and fixed-rate periods may present different scenarios for a lender, they do not typically trigger the immediate need for a demand clause. Rapid property appreciation can actually benefit the borrower by increasing their equity, while bankruptcy might delay repayment or complicate the lender's ability to act. During fixed-rate periods, the payment structure is stable, and the risk of late payments is not inherently elevated, thus making the demand clause less critical.