

## **Chapter 14**

### **Answer Key**

1. a. A vendor is the seller who retains legal title to the property during an installment contract term.
2. b. Usury is charging interest in excess of the maximum rate.
3. a. A mortgagor, or borrower, gives legal title to the mortgagee, or lender, while retaining equitable title. While the lender actually owns the property until the debt is paid, the borrower has rights of ownership such as possession and use. Because the lender holds legal title, the lender has the right to immediate possession of the real estate if the mortgagor defaults.
4. c. A promissory note is the borrower's personal; promise to repay a debt according to agreed-upon terms.
5. c. In a land contract the seller, or vendor, retains legal title to the property during the contract term, and the buyer is granted equitable title and possession. At the end of the loan term, the seller delivers a clear title.
6. c. An origination fee is the fee charged to cover expenses involved with generating a loan.
7. a. The mortgagor, or borrower, receives any money remaining from a foreclosure sale after paying the debt and any other liens.
8. a. A satisfaction of mortgage, also known as a release or discharge, is executed by the lender when the note has been fully paid. This document returns to the borrower all interest in the real estate originally conveyed to the lender. This release must be recorded in the public record to show that the debt has been removed from the property.
9. c. A subordination agreement can change the priority of an existing mortgage by the first lender agreeing to release its position as a first lien to that of a second lender.
10. b. Statutory right of redemption allows a defaulted borrower a period of time to pay the debt and redeem their real estate after the foreclosure sale.
11. d. An acceleration clause gives the lender the right to declare the entire debt due and payable immediately if the borrower has defaulted.

12. c.  $\$115,000(\text{sales price}) - \$15,000 (\text{earnest money}) = \$100,000 (\text{loan balance})$
- $\$100,000 (\text{loan balance}) \times 2\% (.02) \text{ discount points} = \$2,000 \text{ for discount points}$
- $\$15,000 (\text{earnest money}) + \$2,000 (\text{discount points}) = \$17,000 \text{ cash used by buyer}$
13. d. Satisfaction of mortgage needs to be recorded in public record to show that the debt has been removed from the property.
14. a. A deed of trust is a three party instrument that conveys naked title to a third party, the trustee, who holds the title on behalf of the lender, also known as the beneficiary. The borrower is the trustor. A mortgage is a two part instrument between the mortgagor and the mortgagee.
15. c. A buyer who purchases property and assumes the seller's debt becomes personally obligated for the payment of the entire debt.
16. b. A defeasance clause requires a lender to execute a satisfaction when the note has been fully paid.
17. d. A deficiency judgment entitles the mortgagee to a personal judgment against the borrower for the unpaid balance when a foreclosure sale does not produce enough cash to pay the loan balance in full after deducting expenses and accrued unpaid interest. It may also be obtained against any endorsers or guarantors of the note and against any owners of the mortgaged property who assumed the debt by written agreement.
18. a. A due-on-sale clause, or alienation clause, provides that when property is sold, the lender may either declare the entire debt due immediately or permit the buyer to assume the loan at an interest rate acceptable to the lender. The due-on-sale clause allows the lender to prevent a future purchaser of the property from being able to assume the loan, particularly if the original interest rate is low.
19. b. Satisfaction of mortgage returns to the borrower all interest in the real estate originally conveyed to the lender.
20. b. Equitable title in a contract for deed gives the borrower rights of possession and use while the seller retains the legal title during the contract term. If the buyer defaults, the seller can evict the buyer and keep any money the buyer has already paid, which is construed as rent.
21. a. Deed in lieu of foreclosure is carried out by mutual agreement rather than by a lawsuit.

22. c. An impound account, or escrow account, is a reserve fund that a borrower deposits funds into to cover the amount of unpaid real estate taxes and insurance premiums. The lender will make tax and insurance payments on the borrower's behalf.
23. c. Hypothecation requires a borrower to pledge specific real property as collateral for the loan. The debtor retains the right of possession and control, while the creditor receives equitable right in the pledged property.
24. c. In a land contract the seller, or vendor, retains legal title to the property during the contract term, and the buyer is granted equitable title and possession. At the end of the loan term, the seller delivers a clear title.
25. a. A novation agreement makes the buyer, who has assumed the mortgage, solely responsible for any default on the loan while the seller, who was the original borrower, is released from any liability for the loan.
26. c.  $\$50,000$  (loan amount) X 4% (.04) (number of discount points) =  $\$2,000$  (lender charge)
27. b. The priority of mortgages and other liens normally is determined by the order in which they were recorded. A mortgage on land that has no prior mortgage lien is a first mortgage. If the owner executes another loan for additional funds, the new loan becomes a second mortgage.
28. a. A mortgage is a financing instrument by which real estate is used as security, or collateral, for a debt.
29. b. A deficiency judgment entitles the mortgagee to a personal judgment against the borrower for the unpaid balance when a foreclosure sale does not produce enough cash to pay the loan balance in full after deducting expenses and accrued unpaid interest. It may also be obtained against any endorsers or guarantors of the note and against any owners of the mortgaged property who assumed the debt by written agreement.
30. c.  $\$72,000$ (loan amount) X 3% (.03) (for 3 discount points) =  $\$2,160$  (buyer owes)