

Chapter 22

Answer Key

1. b. An escrow is a method of closing in which a disinterested third party is authorized to act as escrow agent and to coordinate the closing activities. (418)
2. b. Accrued items are owed by the seller but will be paid later by the buyer and are listed as credits to the buyer. (425)
3. c. RESPA was enacted to protect consumers from abusive lending practices and applies to residential properties financed by federally related mortgage loans. (420)
4. d. A closing involves fulfilling the promises made in a sales contract. (417)
5. b. If the broker is the agent for the seller, the seller is normally responsible for paying the commission, and so it appears as a debit to the seller. (423)
6. a. The seller is usually required to produce a current abstract of title or title commitment from the title insurance company. If an abstract is used, the purchaser's attorney examines it and issues an opinion of title. (415)
7. c. RESPA provides that the lender provide the borrower with a good-faith estimate of the settlement costs no more than three business days after receiving the loan application. (421)
8. b. Accrued interest, owed by the seller but paid later by the buyer, is a debit to the seller and a credit to the buyer on the closing statement. (425)
9. c. Although the broker's commission is generally paid out of the proceeds at closing, the broker is not required to be present. (419)
10. b. The division of financial responsibility between the buyer and seller for property charges is called proration. (422)
11. a. The seller usually pays for recording charges necessary to clear all defects and furnish the purchaser with a marketable title. The purchaser pays for recording charges that arise from the actual transfer of title. (423)
12. a. If the terms of the assumed loan are modified or the lender charges more than \$50 for the assumption, then the transaction is subject to RESPA regulations. (420)

13. b. The principal balance on an assumed mortgage loan is listed as a debit to the seller, and a credit to the buyer. (423)
14. b. RESPA is administered by HUD. (420)
15. b. A debit is a charge to be paid by the buyer or seller (422)
16. b. Lenders are prohibited by RESPA from maintaining a cushion that is larger than one-sixth of the total amount of taxes and insurance paid out the account, which is approximately 2 months of escrow payments. (424)
17. c. A borrower has no rights of rescission under RESPA. There are some rights of rescission afforded under Regulation Z. (421)
18. c. RESPA prohibits any referral fees –kickbacks- when no services are actually rendered. (422)
19. c. Fees may not be exchanged among the affiliated companies simply for referring business to one another. (421)
20. b. Prepaid items are items prepaid by the seller but not fully used up and appear as a credit to the seller on a closing statement. (425)
21. d. A consumer must be clearly informed of the relationship among the service providers and that other providers are available. (421)

Closing Problem 1 (MATH FAQ'S)

1. a. $\$1,600 \text{ divided by } 12 = \$133.333 \text{ (monthly taxes)} \times 5 \text{ (months prepaid by seller)} = \$666.666 \text{ or } \$666.67$
2. c. $\$125,000 \text{ (sales price)} \times 7\% (.07) \text{ (commission)} = \$8,750$
3. b. $\$350 \text{ divided by } 2 = \175
4. a. $\$125,000 - \$1,000 \text{ (earnest money)} = \$124,000; \$124,000 + \$666.67 \text{ (taxes)} + \$175 \text{ (escrow fee)} + \$20 \text{ (deed recording fee)} = \$124,861.67$
5. b. $\$125,000 \text{ (sales price)} - \$125 \text{ (revenue stamps)} - \$8,750 \text{ (commission)} - \$175 \text{ (escrow fee)} - \$250 \text{ (title insurance policy)} - \$29,450 \text{ (mortgage balance)} + \$666.67 \text{ (prepaid taxes credited)} = \$86,916.67$

Closing Problem 2 (MATH FAQ'S)

1. c. $\$278,000 \text{ (sales price)} \times 7\% (.07) \text{ (commission)} = \$19,460$

2. b. $\$278,000$ (sales price) - $\$5,000$ (earnest money) + $\$350$ (appraisal fee) + $\$225$ ($\frac{1}{2}$ attorney fee) + $\$25$ (recording fee) + $\$651.78$ ($\$1950$ (annual taxes divided by 365 x 122 days left in the year, = prepaid taxes) = $\$274,251.78$
3. c. $\$278,000$ (sales price) - $\$19,460$ (commission) - $\$113,576.82$ (mortgage balance) - $\$550$ (title insurance) - $\$225$ ($\frac{1}{2}$ attorney fee) - $\$200$ (termite report) + $\$651.78$ (prorated taxes for 122 days, credited from buyer) = $\$144,639.96$
4. b. $\$1,950$ (annual taxes) divided by 365 = $\$5.342/\text{day}$ x 122 days (Sept-30; Oct-31; Nov- 30; Dec- 31) = $\$651.78$

Closing Problem 3 (MATH FAQ'S)

1. b. $\$2,900$ (annual taxes pd) divided by 365 days = $\$7.945/\text{day}$ x 77 days (Oct 16-Dec 31) = $\$611.78$
2. b. $\$350,000$ (sales price) x 6% (.06) (commission) divided by 2 = $\$10,500$
3. a. $\$350,000$ (sales price) - $\$21,000$ (total commission) - $\$400$ ($\frac{1}{2}$ attorney fee) - $\$1,150$ (title insurance policy) - $\$126.30$ (revenue stamps) - $\$127,042.42$ (mortgage balance) - $\$456.83$ (interest in arrears for loan at $\$127,042.42$ x $\frac{83}{4}\%$ (.875)= $\$11,116.211$ divided by 365 = $\$30.455$ x 15 days) + $\$611.78$ (prorated taxes for 77 days credited from buyer) = $\$200,436.23$
4. a. $\$350,000$ (sales price) - $\$3,500$ (earnest money) - $\$127,042.42$ (assumed loan) - $\$456.83$ (interest on loan for 15 days) + $\$611.78$ (prorated taxes for 77 days, owed because prepaid by seller: Oct- 16; Nov- 30; Dec- 31) + $\$400$ ($\frac{1}{2}$ attorney fee) + $\$758$ (insurance policy) + $\$30$ (recording fee) = $\$220,800.53$