**Multiple Choice Test Bank**

***Introduction to Housing*, edited by Katrin B. Anacker, Andrew T. Carswell, Sarah D. Kirby, and Kenneth R. Tremblay (UGA Press, 2018)**

**Chapter 8: The Housing Finance Industry**

**Q 1: What is subprime lending?**

\_\_\_ lending at no interest

\_\_\_ lending at a higher interest rate

\_\_\_ lending at a lower interest rate

\_\_\_ lending at a quality of a bad-tasting steak

**Q2: What is the Mortgage Electronic Registration System (MERS)**

\_\_\_ the name of the public mortgage recording system at the county courthouse

\_\_\_ the name of the private mortgage recording system at the county courthouse

\_\_\_ the name of the private mortgage recording system based on artificial intelligence (AI)

\_\_\_ the name of the private mortgage recording system which has increasingly replaced the public mortgage recording system at the county courthouse

**Q3: What are building and loan societies (B&Ls)?**

\_\_\_ lenders that provide a savings infrastructure with savings contracts for down payment for homebuyers

\_\_\_ borrowers that provide a savings infrastructure with savings contracts for down payment for homesellers

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**Q4: When was the heyday of building and loan societies (B&Ls) in the U.S.?**

\_\_\_ B&Ls were initiated by George Washington, who opened the first B&L branch in Alexandria, Virginia on King Street in 1759 (now headquarters of Burke and Herbert Bank

\_\_\_ B&Ls were established in the 1830 and popular until the 1950s

\_\_\_ B&Ls were established in the 1930s and popular until the 1980s (B&L crisis)

\_\_\_ B&Ls were established in the 2010s as an outcome of the national foreclosure crisis

**Q5: What was the contractual foundation of building and loan societies (B&Ls)?**

\_\_\_ each borrowing member pledged to buy shares in the association by paying regular weekly or monthly dues

\_\_\_each non-borrowing member pledged to buy shares in the association by paying regular weekly or monthly dues

\_\_\_ each borrowing member invested a specific amount based on a mortgage contract

\_\_\_ each non-borrowing member took out a mortgage based on a mortgage contract

**Q6: What was the life cycle of the mortgages issued by building and loan societies (B&Ls)?**

\_\_\_ the B&Ls created the 30-year mortgage with fixed interest rates

\_\_\_ the B&Ls created the 50-year mortgage with flexible interest rates

\_\_\_ the B&Ls created a mortgage that had a life cycle of only a few years

\_\_\_ the B&Ls created a mortgage that had the same life cycle as the borrower

**Q7: The risks and rewards of the mortgage portfolio of the building and loan (B&L) society…**

\_\_\_ were fully shared by the government (i.e., the taxpayer)

\_\_\_ were partly shared by the government (50%), nonborrowers (25%), and borrowers (25%) of the B&L

\_\_\_ were only shared by nonborrowers of the B&L

\_\_\_ were fully shared by nonborrowers and borrowers of the B&L

**Q8: In the 19th century prospective homeowners saved money for homeownership through…**

\_\_\_ opening a bank account

\_\_\_ issuing commercial paper (i.e., sold certificates of deposit or bonds below face value)

\_\_\_ stockpiling money at home

\_\_\_ making business loans

**Q9: Members of building and loan societies (B&Ls) were interested in…**

\_\_\_ earning relatively low dividends for their shares and paying relatively high interest rates for their mortgages

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**Q10: What is mortgage securitization?**

\_\_\_ a process were mortgages are secured by building and loan societies (B&Ls)

\_\_\_ a process were mortgages are secured by savings and loan societies (S&Ls)

\_\_\_ a process were mortgages are secured by a process that bundles several mortgages and then sells them in one package on Wall Street, to Fannie Mae, or Freddie Mac, thus spreading risk

\_\_\_ a process were mortgages are secured by a process that sells individual mortgages to Wall Street, Fannie Mae, or Freddie Mac, thus keeping risk low

**Q11: What is the secondary mortgage market?**

\_\_\_ a market where mortgages are bought and sold by individual borrowers

\_\_\_ a market where mortgages are bought and sold by building and loan societies (B&Ls)

\_\_\_ a market where mortgages are bought and sold by Wall Street, Fannie Mae, or Freddie Mac

\_\_\_ a market where mortgages are bought and sold by savings and loan societies (S&Ls)

**Q12: What is the Federal Housing Administration (FHA)?**

\_\_\_ A government agency established in 1934 to insure mortgages

\_\_\_ A government-sponsored enterprise established in 1934 to originate mortgages

\_\_\_ A government agency established in 1934 to originate mortgages

\_\_\_ A government-sponsored enterprise established in 1934 to sell mortgages to building and loan societies (B&Ls)

**Q13: Federal Housing Administration (FHA)-insured mortgages are backed…**

\_\_\_ by Wall Street

\_\_\_ by the full faith and credit of the U.S. government

\_\_\_ by building and loan societies (B&Ls)

\_\_\_ by savings and loan societies (B&Ls)

**Q14: Federal Housing Administration (FHA)-insured mortgages contributed**

\_\_\_ to the building and loan societies (B&Ls) crisis

\_\_\_ to the savings and loan societies (S&Ls) crisis

\_\_\_ to the post-World War II housing boom, accelerating the spread of homeownership

\_\_\_ to the housing boom in the 1930s, accelerating the spread of homeownership

**Q15: The Federal Housing Administration (FHA) provides mortgage credit to borrowers,**

\_\_\_ especially to first-time home buyers

\_\_\_ especially to high-income home buyers (top 1%)

\_\_\_ especially to third-time home buyers

\_\_\_ especially to buyers of vacation or “second” homes

**Q16: Prior to the establishment of the Federal Housing Administration (FHA),**

\_\_\_ down payment requirements were large, often more than 50 percent, and repayment schedules were short, typically five years

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**Q17: What is redlining?**

\_\_\_ The systematic denial of credit to select neighborhoods.

\_\_\_ The provision of credit at high interest rates to select neighborhoods.

\_\_\_ The provision of credit at low interest rates to select neighborhoods.

\_\_\_ The denial of credit to individual borrowers.

**Q18: In 1948, the U.S. Supreme Court ruled Shelley v. Kraemer that**

\_\_\_ state courts were prohibited from regulating the interest rates of mortgages held by a particular group of people, for example Blacks/African Americans

\_\_\_ state courts were prohibited from enforcing racial covenants, i.e., contractual agreements that prohibit the purchase, lease, or occupation of a piece of property by a particular group of people, for example Blacks/African Americans

\_\_\_ state courts were prohibited from regulating the down payment of mortgages held by a particular group of people, for example Blacks/African Americans

\_\_\_ state courts were encouraged to enforce racial covenants, i.e., contractual agreements that prohibit the purchase, lease, or occupation of a piece of property by a particular group of people, for example Blacks/African Americans

**Q19: What is the current minimum down payment for a mortgage insured by the Federal Housing Administration (FHA)?**

\_\_\_ 0 percent

\_\_\_ 3.5 percent

\_\_\_ 7.5 percent

\_\_\_ 10 percent

**Q20: What is the current loan-to-value (LTV) ratio of a mortgage insured by the Federal Housing Administration (FHA)?**

\_\_\_ 80 percent of the property value

\_\_\_ 92.5 percent of the property value

\_\_\_ 96.5 percent of the property value

\_\_\_ 100 percent of the property value

**Q21: In 1938, Fannie Mae was established to encourage the flow of credit**

\_\_\_ to the government

\_\_\_ to home buyers, home builders, and financial institutions

\_\_\_ to home builders only

\_\_\_ to financial institutions only

**Q22: Fannie Mae and Freddie Mac were granted several advantages, for example**

\_\_\_ an implicit federal guarantee, i.e., a potential bailout.

\_\_\_ reduced state and local taxes (by 50%)

\_\_\_ reduced state and local taxes (by 75%)

\_\_\_ reduced state but regular local taxes

**Q23: In return for the granted several advantages, Fannie Mae and Freddie Mac were required to …**

\_\_\_ establish their headquarters in the District of Columbia

\_\_\_ have a workforce that is at least 25% of color (race/ethnicity defined by the U.S. Bureau of the Census)

\_\_\_ guarantee to sell 90% of their portfolio to Wall Street, subject to oversight of the Consumer Financial Protection Bureau (CFPB)

\_\_\_ meet affordable housing goals, set by the U.S. Department of Housing and Urban Development, first established in the Federal Housing Enterprise Financial Safety and Soundness Act (FHEFSSA) of 1992, and later modifications

**Q24: What are Alternative-A prime mortgages?**

\_\_\_ Mortgages originated to borrowers who did not provide full documentation, had relatively low credit scores, and relatively high LTV values, and in some cases held investment properties

\_\_\_ Mortgages originated to lenders who did not provide full documentation, had relatively low credit scores, and relatively high LTV values, and in some cases held investment properties

\_\_\_ Mortgages originated to borrowers who provided full documentation, had relatively high credit scores, and relatively low LTV values

\_\_\_ A subprime mortgage

**Q25: What are the main reasons that the United States are a nation of homeowners?**

\_\_\_ Policies passed under President Franklin D. Roosevelt, among others (Federal Housing Administration [FHA], Fannie Mae, and Freddie Mac]

\_\_\_ Policies passed under President Ronald Reagan (Depository Institutions Deregulation and Monetary Control Act of 1980 and Alternative Mortgage Transaction Parity Act of 1982)

\_\_\_ Policies passed under President Obama (Fannie Mae and Freddie Mac taken into conservatorship)

\_\_\_ Policies passed under President Trump (Mortgage Interest Deduction [MID] requires more than $12,000 itemized expenditures)