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# AFE

## Financial

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**QUESTION: 1**

Many companies have developed an asset/liability management approach that is founded on understanding product liabilities. Mortgages meet the primary objective of maintaining:

- A. A tight asset/liability match
- B. A well-diversified core of investments
- C. A tight asset/liability match with a well-diversified core of investments.
- D. Real estate lending by insurance companies

**Answer: C**

**QUESTION: 2**

A \_\_\_\_\_ is an amount of money, loaned at interest for a specified term, secured by real estate and by its improvements such as buildings and infrastructure. This form of instrument itself varies by jurisdiction, but the debt is always evidenced by an accompanying promissory note.

- A. Mortgage Loan
- B. Real estate lending
- C. Conventional Commercial Loans
- D. CMBS

**Answer: A**

**QUESTION: 3**

Prepayment of a conventional mortgage loan, prior to its specified maturity, is discouraged through the general market acceptance of significant prepayment penalties. Often these penalties are calculated so that when prevailing market interest rates are:

- A. Lower than the rate on the loan being repaid the borrower has to make up the interest rate differential and the lender is essentially “made whole” for a potential loss of interest.
- B. Greater than the rate on the loan being repaid the borrower has to make up the interest rate differential and the lender is essentially “made whole” for a potential loss of interest.
- C. Equal to the rate on the loan being repaid the borrower has to make up the interest rate differential and the lender is essentially “made whole” for a potential loss of interest.
- D. Lower than the rate of interest being paid to the borrower has to make up the interest rate differential and the lender is essentially “made whole” for a potential loss of interest.

**Answer:** A

**QUESTION:** 4

These are securities whose underlying assets consist of commercial mortgage loans. The commercial loans are pooled, which brings diversification and liquidity to the asset class. What are these?

- A. Conventional securities
- B. CMBS
- C. Subordinated securities
- D. Securitization

**Answer:** B

**QUESTION:** 5

There are many different sources of CMBS. Conduits and aggregate pools generally consist of loans newly originated, purchased or held by investment bankers until the pool is large enough for an efficient execution. Government agencies such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corp. (FHLMC) are important sources of:

- A. Residential financing
- B. B2B financing.
- C. Commercial financing.
- D. Mortgage loans

**Answer:** A

**QUESTION:** 6

\_\_\_\_\_ is a special variation on a second mortgage. In this form, the new lender assumes the original or first mortgage and has the responsibility of collecting all payments and remitting a portion of these payments to the first lender.

- A. Conventional Residential Loan
- B. FHA loan

- C. Wrap-around loan
- D. VA loan

**Answer:** C

**QUESTION: 7**

Generally, residential loans are open to prepayment at any time without penalty. To protect against a deficiency, mortgage loans should not exceed the market value of the mortgaged property and in fact are usually made for:

- A. No more than 80 percent of the value
- B. Not less than 80 percent of the value
- C. No more than 90 percent of the value
- D. Not less than 70 percent of the value

**Answer:** A

**QUESTION: 8**

Federal Housing Administration:

- A. Agency does not make loans; it only insures them. For this protection the borrower must pay an annual insurance premium to the FHA of 0.5 percent of the outstanding principal amount of the loan
- B. Agency does not make loans; upon default, the lender has the option either of assigning the mortgage to the FHA and receiving cash and/or securities equal to the loan amount at the date of the default or of foreclosing on the mortgaged property
- C. Establishes standards for property that can not be insured and maximum terms, interest rates, and amounts for the insured loans
- D. All of these

**Answer:** A, B

**QUESTION: 9**

These are the loans in which:

Arrangement is usually called commitment

When the structure is completed and put in service, the loan is paid off from the proceeds of the long term financing, whatever its source

Proper controls would require the lender to obtain documentation for the disbursed portion of the construction loan and be assured that the cost of the structure to date is equivalent to the disbursed portion of the construction loan. What are these?

- A. Undeveloped Land Loans
- B. Construction Loans
- C. Development Loans
- D. Residential Loans

**Answer:** D

**QUESTION:** 10

\_\_\_\_\_ allow investments to be made, up to a certain percent of invested or total admitted assets, in assets that do not otherwise meet regulatory requirements. If their domiciliary jurisdiction regulations have a this, a life insurer with a business purpose for doing so can make a limited amount of mortgage loans that do not meet regulatory requirements without a reduction in surplus. However, some jurisdictions do exercise some extraterritorial jurisdiction related to it.

- A. Loan application
- B. Basket clause
- C. Underwriting agreement
- D. None of these

**Answer:** D

**QUESTION:** 11

Evidences the fair market value of the property that is security for the mortgage loan. The appraisal value is used to determine that the loan to market value ratio is in compliance with regulatory requirements. It also is used to determine any non-admitted mortgage loan amount. Appraisals are obtained from:

- A. Independent, qualified appraisers
- B. The company's own qualified appraisers
- C. Federal Housing Administration
- D. Any one out of A and B

**Answer:** D

**QUESTION: 12**

During the underwriting process, information related to a mortgage loan is collected, and this information is the basis for a final decision as to whether or not the loan should be made. The documents generated during this underwriting process are all of the following EXCEPT:

- A. Loan applications
- B. Credit reports
- C. Borrower's financial statements
- D. Periodic inspection reports

**Answer: D**

**QUESTION: 13**

Subsequent to the funding of a loan, the most common document/s obtained is/are:

- A. New or updated appraisals as evidence of the current value of the property
- B. Current financial statements on the borrower or the property, if the property is income producing, as evidence of the borrower's continuing financial strength and of the property's continuing ability to produce income
- C. Periodic inspection reports as evidence of the physical condition of the property
- D. Borrower's financial statements

**Answer: A, B, C**

**QUESTION: 14**

It indicates the lender's commitment to make a loan in accordance with the terms specified either in the borrower's loan application or in the terms the company approves for the loan.

- A. Verification of deposits
- B. Commitment letter
- C. Appraisal
- D. Original note



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