Test your mortgage knowledge

1. **T/F:** As Mortgage-Backed Securities rise in price, interest rates move higher.
2. **Fill in the blank:** To determine when customers refinancing will break even from their closing costs, divide the closing costs by the \_\_\_\_\_\_\_\_.
3. **Fill in the blank:** A mortgage payment is paid in \_\_\_\_\_\_\_\_, meaning that the payment is made on the first of the month for the month that just passed.
4. **T/F:** It is not worth conducting an annual review with your customers if the rate that you can offer them on a refinance is higher than their current mortgage rate.
5. **T/F:** APR tends to be lower than a loan’s nominal interest rate.
6. **T/F:** The unemployment rate has been the most reliable early recession indicator.
7. **Fill in the blank:** The Federal Open Market Committee’s (FOMC) primary tool for changing monetary policy is raising or lowering its target for what is called the \_\_\_\_\_\_\_\_\_\_\_\_, or the interest rate for overnight borrowing for banks.
8. **T/F:** A locked rate on a mortgage is nothing more than a lender promising to hold an interest rate for a period, or until the transaction closes.
9. **Fill in the blank:** \_\_\_\_\_\_\_ can have a significant impact on interest rates, as it erodes the value of a Bond’s fixed return.
10. **T/F:** The best way to compare across different loan types is to compare the APR.

**Scoring Summary:**

**More than 8:** Great foundation of knowledge. Empower these MLOs to become successful sellers by investing in the right sales enablement tools. Consider an all-in-one solution like MBS Highway, which offers both up-to-date market intelligence as well as a variety of marketing and sales tools.

**Between 5-8**: A refresher course on market fundamentals would be valuable, along with daily access to market insights and tools needed to build trust and increase conversion with customers and referral partners.

**Less than 5:** You should make learning market fundamentals a priority for your MLOs. Consider leveraging a formal course such as Certified Mortgage Advisor (CMA).

**Answer Key:**

* + - 1. T/F: As Mortgage-Backed Securities rise in price, interest rates move higher.

**False.** Mortgage rates are based on the trading of Mortgage-Backed Securities (MBS). As MBS rise in price, interest rates **improve and move lower**.

* + - 1. Fill in the blank: To determine when customers refinancing will break even from their closing costs, divide the closing costs by the \_\_\_\_\_\_\_\_.

To determine when customers refinancing will break even from their closing costs, divide the closing costs by the **interest savings.**

* + - 1. Fill in the blank: A mortgage payment is paid in \_\_\_\_\_\_\_\_, meaning that the payment is made on the first of the month for the month that just passed.

A mortgage payment is paid in **arrears**. In other words, it is paid after the money is used. This is unlike a rent payment that is paid at the beginning of the month for the month that follows.

* + - 1. T/F: It is not worth conducting an annual review with your customers if the rate that you can offer them on a refinance is higher than their current mortgage rate.

**False**. It is worth conducting an annual review with your customers even if the rate that you can offer them on a refinance is higher than their current mortgage rate. You still may be able to save them money by doing a cash-out refinance into a higher rate, pay off debts, and reduce their overall monthly obligation.

* + - 1. T/F: APR tends to be lower than a loan’s nominal interest rate.

**False.** The nominal interest rate refers to the interest charged on a loan but does not take any other expenses into account. APR is the combination of the nominal interest rate and any other costs or fees involved in obtaining the loan. For this reason, APR tends to be **higher** than a loan’s nominal interest rate.

* + - 1. T/F: The unemployment rate has been the most reliable early recession indicator.

**True:** Although most do not understand how this works, the unemployment rate has been the most reliable early recession indicator. It has been 100% accurate.

Unlike conventional thinking, recessions do not happen when the unemployment rate is high. Recessions occur after the unemployment rate reaches its lowest level and begins to tick higher.

When business is good, businesses hire additional workers to meet the increase in demand and the rate of unemployment declines. When this expansion for businesses slows, this deceleration in business activity causes those same businesses to reduce unneeded overhead by reducing headcount. The newly unemployed cause the unemployment rate to rise and they also reduce their spending. The businesses that had previously benefited by the spending of those individuals who used to have jobs feel an additional slowdown. In turn, those businesses must reduce headcount. The cycle perpetuates, driving the economy into a recession.

* + - 1. Fill in the blank: The Federal Open Market Committee’s (FOMC) primary tool for changing monetary policy is raising or lowering its target for what is called the \_\_\_\_\_\_\_\_\_\_\_\_, or the interest rate for overnight borrowing for banks.

The Federal Open Market Committee’s (FOMC) primary tool for changing monetary policy is raising or lowering its target for what is called the **Fed Funds Rate**, or the interest rate for overnight borrowing for banks.

* + - 1. T/F: A locked rate on a mortgage is nothing more than a lender promising to hold an interest rate for a period, or until the transaction closes.

**True.** A locked rate on a mortgage is nothing more than a lender promising to hold an interest rate for a period, or until the transaction closes. Lenders are at risk for any MBS price changes in the marketplace between the time they agreed to grant the lock and the time that the loan closes.

* + - 1. Fill in the blank: \_\_\_\_\_\_\_ can have a significant impact on interest rates, as it erodes the value of a Bond’s fixed return.

**Inflation** can have a significant impact on interest rates, as it erodes the value of a Bond’s fixed return.

* + - 1. T/F: The best way to compare across different loan types is to compare the APR.

**False.** APR is a flawed and inaccurate way to compare loans. APR assumes that borrowers will have the loan for its entire duration. Therefore, no prepayments, refinances, or selling of the home for the entire life of the mortgage.