CHAPTER 2
INSTITUTIONAL LENDERS

PREVIEW

An institutional lender, also known as a financial intermediary, is any depository that pools funds of clients and depositors and invests them into real estate loans. The lending policies of these institutions have a profound impact on the real estate market. In California, institutional lenders include savings banks (former savings and loan associations), commercial banks, and life insurance companies. They are differentiated from noninstitutional lenders, such as individual or private lenders, in the following important ways:

- **Institutional lenders are highly regulated and closely supervised by federal and state agencies, whereas private lenders are relatively free of regulations.**
- **Private lenders invest their own funds directly, or through mortgage brokers, into real estate loans, rather than through a financial intermediary.**
- **Regulated institutional lenders are not subject to usury laws and may charge any rate of interest. In contrast, many private lenders make "personal" loans that are subject to usury laws, which place legal limits on rates of interest. (See Chapter 3 for details.)**

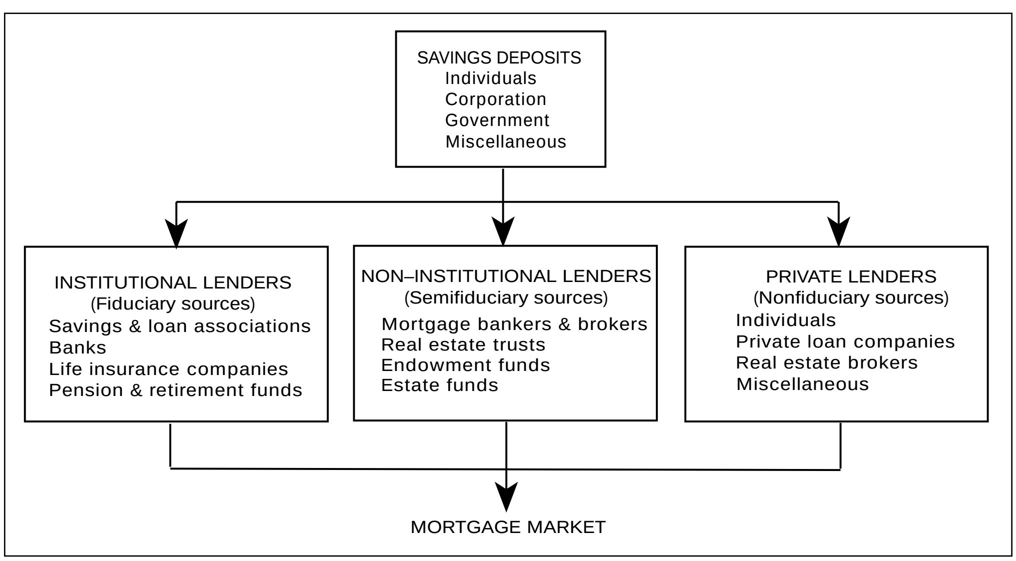
- **Many institutional lenders qualify to make Department of Veterans Affairs (DVA) and Federal Housing Administration (FHA) loans.**
- **There is an active secondary market for institutional loans, as described in Chapter 7.**
- **Institutional lenders and federal regulations in some cases set private mortgage insurance (PMI) requirements, discussed in Chapter 5.**

Figure 2-1 distinguishes two broad classifications of lenders: institutional and noninstitutional lenders. How these lenders fit into the mortgage market will be explained in this and ensuing chapters. Then, in Figure 2-2, we show how savings become real estate loans.

After completing this chapter, you should be able to:

1. **Demonstrate how savings deposits become real estate loans.**
2. **Differentiate institutional from noninstitutional lenders.**
3. **List three types of institutional lenders and briefly explain the differences between them.**
4. **Discuss several of the trends facing institutional lenders.**
5. **Decide when to use one institutional lender over another.**
6. **List five regulatory agencies that supervise the operations of institutional lenders.**

Figure 2-1 Sources of money in the mortgage market.



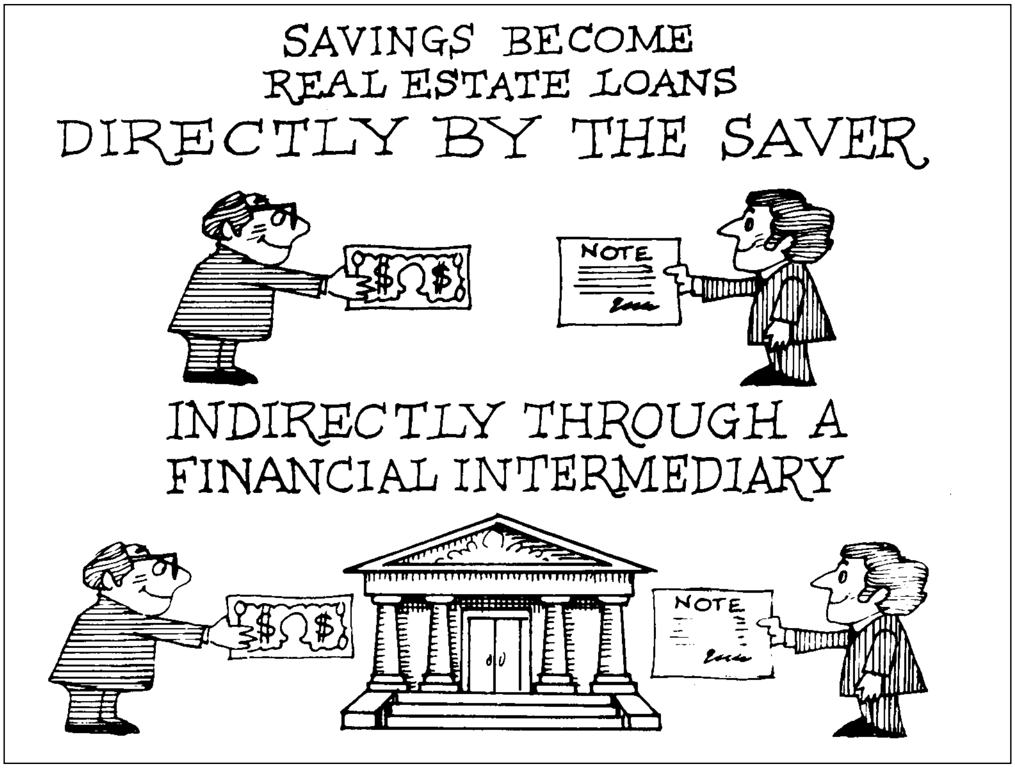


Figure 2-2 How savings become real estate loans.

2.1 Savings Banks

What Is a Savings Bank?

In simple terms, a savings bank is a ***financial intermediary*** that accepts savings from the public and invests these savings principally in real estate trust deeds and mortgages. Previously called savings and loan associations, most changed their name after the S&L crisis of the 1980s. Today they are frequently referred to as "thrift" institutions.

Savings banks may be either mutual or capital stock institutions. As a mutual institution, depositors and borrowers are given share certificates or receipts in return for deposits of money. This is why a deposit in a mutual thrift is often referred to as a *share liability* rather than a savings deposit. A capital stock institution, on the other hand, issues shares of stock to its investors, representing fractional shares of ownership of the institution.

A savings bank is also classified as either a state-chartered or a federally chartered institution. A *state-chartered* thrift institution is licensed by the State of California and operates under the supervision of a state commissioner and, if insured, also under the ***Federal Housing***

Finance Board. By contrast, a *federally chartered* savings bank is licensed by the Federal Housing Finance Board and is readily identified by the word *federal* in its corporate title, such as Fidelity Federal Savings. To the saver or borrower, however, there is little difference between state and federal institutions, so similar are the laws and regulations under which they operate. They have substantially "parallel authority," which means that home buyers can shop for loans almost anywhere.

Lending Characteristics of Savings Banks (Thrifts)

The chief lending characteristics of savings banks include the following:

- Government regulations require that a majority of their assets must be in real estate. Business and consumer loans are permitted to a limited extent but pale when compared with loans secured by real property.
- As a general rule, most home loans do not exceed 95 percent of the appraised value or sales price of the home, whichever is lower. Exceptions include government-backed loans, such as FHA and DVA. Most thrifts limit the maximum amount on a single loan to 1 percent of their total assets. Hence, larger thrifts are able to accommodate large loan requests more readily than smaller savings banks.
- Most thrifts limit their loans to 30 years, although 40-year loans are permitted in some cases. Fifteen-year loans are also widely promoted, especially in the home refinancing market. Sometimes, during periods of rising interest rates, many of these loans include provisions for due dates (balloons) in as few as three to five years, or for rollovers thereafter at the prevailing market rate. These have monthly payments amortized for 30 years, but the unpaid balance is due in three, five, or seven years.
- Interest rates in the past were highest among the institutional real estate lenders. This was due to the large demand for loans and to the higher risks associated with higher ***loan-to-value ratios***. (High loan-to-value means that the amount of the loan is high in relation to the appraised value or sales price of the property.) Currently, rates charged by commercial banks and savings banks are basically the same.

- Their basic real estate lending is on single-family, owner-occupied dwellings, but in a favorable market thrifts will also finance mobile home loans, non-owner-occupied dwellings, apartments, and commercial and industrial properties.
- Combination loans are often available. Such loans combine construction (short-term financing) and ***take-out loans*** (long-term or permanent financing) into one loan.
- Savings banks are permitted to make collateral loans secured by the borrower's savings accounts, savings certificates, bonds, existing secured notes, and certain other forms of readily liquid assets.

Trends in the Savings Bank Industry

Increased competition from commercial banks and mortgage companies, combined with imbalances between money-scarce and money-surplus areas that create demands for multiregional lending programs, have contributed to the loss of stature of savings banks (thrifts) as the principal source of home loans.

2.2 Commercial Banks

What Is a Commercial Bank?

A ***commercial bank*** is, as the name implies, a commercial institution that functions as a depository for funds and a place from which to borrow money. They are not to be confused with "industrial banks" or so-called finance companies. Commercial banks have two different forms of deposits, demand deposits and time eposits. The bulk of their funds are in demand deposits, which are deposits in business and personal checking accounts. Rarely are such funds used for long-term mortgage lending, due to the highly volatile nature of such funds—that is, they may be withdrawn on demand by the depositor and therefore cannot be depended on to remain in the account for very long. For this reason they are also referred to as transaction money or transaction accounts.

Time deposits, or interest-bearing savings accounts, provide the bank with long-term funds that are invested into a variety of outlets, including real estate financing.

Commercial banks may make almost any type of loan on virtually any type of reasonable collateral. Although their primary function is to make short-term business loans, California banks are aggressive players in the home loan market.

Commercial banks are always stock corporations that operate under a license or charter from either the state or the federal government. A state-chartered bank is licensed to do business by the California Department of Banking. A nationally chartered bank is given its license by the Comptroller of the Currency and is readily identifiable by the word *national* in its title, such as South Coast National Bank.

Lending Characteristics of Commercial Banks

Commercial banks are a primary source for short-term construction financing, when the builder or developer has a "take-out" commitment from some other lender—most often a savings bank—for the permanent mortgage loan following completion of improvements. Large commercial banks play a major role in financing business and commercial properties, while some smaller ones deal largely with home loans.

Banks may make home loans up to 95 percent loan-to-value ratio, for as long as 30 years on single-family dwellings. Many banks require private mortgage insurance on loans whose ratio of loan-to-value is in excess of 80 percent.

The chief characteristics of bank real estate loans are the following:

- Active in the regular home loan market, commercial banks can make FHA and DVA loans without regard to the loan-to-value ratio, maturity, and other limitations imposed on nongovernmental, or conventional, loans.
- Construction loans are favored, with maturity dates generally of 24 months or less, though they may extend to 60 months. Many banks require a firm take-out agreement whereby a responsible, permanent investor—such as a savings bank or life insurance company—will extend long-term financing upon completion of construction.
- The property offered as collateral is usually in close proximity to the bank or one of its branches.
- Commercial banks are active seekers of home improvement and home equity loans, even though they constitute a junior lien against the property.

- Banks make ***swing loans***, sometimes referred to as ***bridge loans***, which are short-term ***interim loans*** used to bridge the time during which a property remains unsold. For example, if you as home-owner purchase a replacement house before selling the first house, a swing loan would provide the funds to fill the gap until the sale proceeds provide the funds to pay off the loan. In short, you found the right house at the right price, but haven't sold your existing home, so you secure a loan to purchase the replacement dwelling, with the loan to be repaid as soon as the existing house sells. The lien may exist on both the "old" and the "new" homes. Swing/bridge loans may have monthly payments or may be set up to be paid in a single lump sum upon sale of the old home.

Trends in the Commercial Banking Industry

Recent developments in commercial banking that have or will have an impact on lending activities include these:

1. *Larger banks*. With acquisitions and mergers, along with stiffened competition, big banks will swallow smaller ones or force them out of business.
2. *Interstate banking*. Banks are going nationwide. Geographical restraints are largely ineffective because of interstate deposit-taking, automatic teller machines, and electronic banking that know no state borders. Acquisitions of failing banks by out-of-state banks continue throughout the nation.
3. *Longer maturities*. Despite reliance on demand deposits as their principal sources of capital, banks are allowing longer payoff terms. This is especially true when a bank is located in an area where there are few savings banks. In such situations, commercial banks are the only source of real estate loans and can exercise considerable control over loan rates, terms, and, in effect, even local building activity. Banks have become a powerful force in the housing market in recent years.
4. *Diversification*. The trend is to permit banks to underwrite commercial paper, mortgage-backed securities, municipal revenue bonds, and other financial undertakings. In addition, there is a movement to allow banks in the future to directly sell insurance and securities, and perhaps even broker real estate transactions. These possibilities are being fought by insurance, securities, and real estate ***trade associations*** that feel threatened by the competition.

Battle for Depositors

Commercial banks and savings banks have traditionally been rivals for depositors. It used to be that savings banks, when they were S&Ls under old laws, were allowed to pay regular passbook savers a slightly higher interest rate than commercial banks were allowed to pay. On the other hand, only commercial banks were allowed to handle checking accounts.

Not so today! Current legislation (1) allows savings banks to handle checking (Negotiable Order of Withdrawal, NOW for short) accounts and make a variety of personal consumer loans; (2) permits both commercial banks and savings banks to pay interest on checking accounts; and (3) eliminates the interest-rate differential between regular passbook accounts in thrifts and in banks. As a result, the war for depositors continues to escalate. The impact of this legislation on the real estate market is being debated by housing experts, consumer groups, and the two industries (thrifts and commercial banks) themselves. There are pros and cons on both sides of the issue.

Community Reinvestment Act (CRA)

To guarantee fair lending practices, Congress passed the CRA, which requires all federally supervised financial institutions (thrifts, commercial banks, credit unions, etc.) to disclose lending data in their lobbies and elsewhere. Lenders are required to report data regarding the race, gender, income, and census tract of people to whom they make loans. Its stated purpose is "to assist in identifying discriminatory practices and enforcing antidiscrimination statutes." CRA encourages lenders to offer mortgages for low- and moderately priced housing and meet other credit needs for low- and moderate-income families. The basic idea is that if an institution accepts deposits from a certain area, it should also offer loans in that area.

CRA ratings are made public for all banks and ***thrift institutions***. The government grades each institution on how well it

- Knows the credit needs of its community
- Informs the community about its credit services
- Involves its directors in setting up and monitoring CRA programs
- Participates in government-insured, guaranteed, or subsidized loans
- Distributes credit applications, approvals, and rejections across geographic areas

- Offers a range of residential mortgages, housing rehabilitation loans, and small business loans

All of these criteria are designed to protect consumers against unlawful discrimination. A positive CRA rating is a prerequisite for institutions to open new branches and to engage in expansions, acquisitions, and mergers, since outside third parties can petition agencies to deny these activities to institutions with poor CRA grades.

2.3 Life Insurance Companies

Life insurance companies are another important source of real estate financing, particularly for commercial properties, such as shopping centers and office buildings. They are also a major source of credit for large apartment house projects, hotels and motels, industrial buildings, and regional shopping malls.

What Is a Life Insurance Company?

A ***life insurance company*** is a firm that specializes in the insuring of lives for specified amounts in exchange for specified premium payments. The premiums are invested until such time as funds are needed to pay claims or to establish reserves for losses. These premiums are invested in many outlets, including trust deeds and mortgage loans.

Life insurance companies are organized either as mutual companies owned by the policyholders (insureds) who share in the earnings through premium rebates, or as stock companies owned by the stockholders who, as with any other corporation, are entitled to dividends on earnings. Regardless of whether stock or mutual, insurance companies are licensed by the state in which they are incorporated and/or where they have their principal offices. Each insurance company is governed by the state where it conducts business, and each state regulates the permitted types of loans, maximum loan-to-value ratios, and other conditions.

Lending Characteristics of Life Insurance Companies

In general, life insurance companies have the broadest lending powers of the ***institutional lenders***. Their investment policies are flexible and cover a wide range of financing activities. The laws governing life insurance companies' activities vary from state to state.

Under California laws and regulations, any company not incorporated within this state, but doing business here, is subject to the same restrictions that are placed upon California-based companies.

The chief lending characteristics of life insurance companies include the following:

- Loan-to-value ratios are apt to be on the cautious side, frequently less than 80 percent.
- Payback terms are long, usually 30-year amortizations, with occasional ***lock-in clauses*** that prevent a loan from being paid off before a specified date. For example, there might be a 10- or 15-year lock-in clause on a 30-year loan.
- Interest rates and other fees on conventional loans have traditionally been the lowest among the institutionals, though in recent times they have been steadily climbing.
- Insurance companies prefer to grant large real estate loans (in the millions) as opposed to smaller residential home loans. Many major commercial and industrial developments have insurance company take-out loans.
- Construction loans generally are not desired. Instead, life insurance companies will make the take-out, or permanent, loan after the structure has been completed according to plans and specifications.
- Loan ***correspondents***, such as mortgage companies, are widely used as agents of insurance companies. Many life insurance companies will contract for such representation whenever they deem it profitable. In this way the insurance company is relieved of the burden of originating and processing loans, as well as some administrative and service functions. Correspondents are especially used in California, where there is a high demand for loans, but where few insurance companies are actually headquartered. Detailed information concerning lending authority for insurance companies is found in the California Insurance Code, especially in Section 1150.

Trends in the Life Insurance Industry

Trends that affect life insurance lending practices include the following:

1. *Equity conversion positions—during inflationary periods.* Here the lender has the option to convert part of the mortgage into an

equity position in the property. In short, the lender has the right to convert a portion of the mortgage owed into a part of the ownership of the property at a later date.

2. *Upfront participations (piece of the action)*. As a condition of granting a loan, an insurance company may require an upfront share of the income produced by the property to help increase the yield on the loan. Such sharing is called ***equity participation***. Participation may also take the form of an "equity kicker" such that, instead of income, the lender takes a percentage ownership in the property. Increasingly, however, insurance companies are buying whole projects as sole owners. In periods of rapid inflation, when fixed interest rates become discouraging as investment funds become scarce, participations become an attractive supplement.
3. *Variable and fixed annuities.* As more people purchase insurance company annuity contracts, larger supplies of funds become available for reinvestment. Real estate loans are one way insurance companies reinvest annuity contributions.
4. *Holding companies and joint ventures.* Where state law does not prohibit the practice, a number of life insurance companies are purchased or reorganized under the umbrella of holding companies. In such instances, interrelated lending activities are made possible because other firms that may be joined together under the parent holding company include such entities as commercial banks, savings banks, and even development companies that furnish construction financing, permanent financing, and so forth.

A variation of this concept of pooling resources is through the media of joint ventures. Under such a venture, a life insurance company may provide the needed financing while a well-established developer will furnish the requisite know-how and codevelop a project.

2.4 Mutual Savings Banks

Mutual savings banks operate much like former savings and loan associations, but they exist chiefly in the northeastern United States. None exist in California, but it is important to consider them because of the large contribution they make in furnishing capital for residential loans via the secondary marketplace.

Mutual savings banks are not commercial banks. They are organized in substantially the same way regardless of the state in which they are chartered. They are banks of savings deposits, without stockholders, organized to pool the interests of those of moderate means. Managed by a board of trustees, directors, or managers, mutual savings banks distribute their earnings, after payment of necessary business expenses and taxes, to the depositors in the form of dividends, or the earnings are added to the bank's surplus or reserve funds.

Depending upon state law, the maximum loan-to-value ratio varies from 50 to 90 percent, exclusive of government-backed loans. When money becomes tight and yields on other investment outlets increase, mutual savings banks pull back on their real estate lending activities and expand their lending in non-real-estate areas. *Special note:* When California-based American Savings was sold to Washington Mutual, all offices changed their name to Washington Mutual. But Washington Mutual in California is a savings bank, not a northeastern-style mutual savings bank outlined above.

2.5 Depository Institutions and Monetary Control Act

The Monetary Control Act completely phased out restrictions on interest rates that lenders can pay depositors. As a result, new systems for raising, mobilizing, and investing money have arisen. All of this is intended to increase the yields offered to savers and depositors based upon the terms of their checking and savings accounts.

In deregulating financial institutions, we are seeing the homogenization of these institutions. It is becoming difficult to distinguish between savings banks (thrifts) and commercial banks, so close are their respective functions. Reserves are more or less uniform, consumer lending powers of every variety will ultimately be granted, territorial lending restrictions are to be phased out, and restrictions against junior financing have been lifted; a wave of new types of deposits and classes of savings accounts continues to emerge out of the deregulation process.

Additionally, the act expands the lending authority of federal thrift institutions to invest in consumer loans, commercial paper, corporate debt securities, and junior trust deeds. It authorizes these institutions to make acquisitions, development, and construction loans, and removes the geographical lending restrictions along with certain dollar limitations on residential real estate loans.

2.6 Pension and Retirement Funds

Potentially the largest sources of real estate financing are public and private ***pension funds***. There are hundreds of thousands of private pension funds and state, local, and federal pension funds nationwide, representing over $1 trillion in assets. The Mortgage Bankers Association of America projects the growth of these funds will create an enormous amount of potential mortgage funds that could become available to prop up housing and other real estate markets.

Administration and Lending Policies of Pension and Trust Funds

Administrators of pension funds include trust departments of commercial banks and life insurance companies; trustees of unions; boards of trustees appointed by a governor or mayor, in the case of state and local government employees; and employers. Lending policies vary considerably from fund to fund, with no uniform administrative practices followed. Prudence, market conditions, size of the fund, philosophy of the administrators, and other factors dictate how the funds might best be invested at any given time. In California, the massive PERS (Public Employees Retirement System) has a very large home loan program.

Individual Retirement Accounts (IRAs) and Keogh Plans

As private pension programs became more popular with liberalized tax-deferred contributions for Individual Retirement Accounts for employees, and allowances under the Keogh Plan for self-employed persons, substantially more of these dollars are entering the capital markets. These funds are an important source of real estate financing on all levels. New money is being brought into the capital market from employers, employees, and the self-employed in what might be viewed as a captive market, since the steady inflow of such funds is often more stable and dependable than savings inflow into thrift institutions. (Pension funds accumulate until each member reaches retirement age, whereas savings strictly as time deposits are more volatile.)

Until recently, most pension funds had been invested in government securities and in corporate stocks and bonds. However, the rapid increase in the assets of pension funds and the desire to diversify these investments are causing some fund managers to look at real estate loans as an additional source for investment.

2.7 Government Regulatory Agencies

A variety of federal and state agencies govern activities and practices of institutional lenders. For real estate financing purposes, the most significant are briefly outlined below and discussed in greater depth in other chapters.

Massive changes in the regulatory structure at the federal level were instituted as a result of widespread failures of thrift institutions in the 1980s and early 1990s. A whole new alphabet soup of acronyms has replaced many of the old, beginning with the law itself, the ***Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)***, leading to the creation of many new federal agencies:

1. *Office of Thrift Supervision (OTS)*. This is a branch of the U.S. Treasury. It was created by FIRREA to replace the Federal Home Loan Bank Board as the chief regulator of all savings banks whose deposits are federally insured.

2. *Savings Association Insurance Fund (SAIF)*. This agency was created by FIRREA to replace the Federal Savings and Loan Insurance Corporation (FSLIC), which became insolvent. SAIF collects insurance premiums on checking and savings deposits from all federally insured savings associations. It is managed by the FDIC (Federal Deposit Insurance Corporation), but SAIF insurance premiums are kept separate from premiums paid by commercial and savings banks.

3. *Federal Deposit Insurance Corporation (FDIC)*. This familiar federal agency insures deposits of up to $100,000 per account for commercial and savings banks, and manages the Savings Association Insurance Fund as well as the Bank Insurance Fund.

4. *Federal Housing Finance Board (FHFB)*. This agency oversees mortgage lending by the 12 regional Federal Home Loan Banks. This regulatory function was previously performed by the Federal Home Loan Bank Board. Savings institutions that fail to meet so-called qualified thrift lender (QTL) requirements are not able to borrow or access funds from any of the Federal Home Loan Banks.
5. *Federal Reserve Bank Board (FRBB)*. This agency oversees the Federal Reserve System, regulates activities of commercial banks, and regulates the flow of money and credit, discussed in Chapter 1.
6. *Federal Home Loan Mortgage Corporation (FHLMC)*. Popularly called Freddie Mac, this organization was created by Congress, but it is effectively owned and operated by thrift institutions as they go about their business of buying and selling existing real estate loans—the "secondary mortgage market," detailed in Chapter 7.
7. *Office of Comptroller of the Currency (OCC)*. The OCC is the federal agency responsible for chartering and overseeing the operations of national banks and bank holding companies.
8. *California Department of Banking*. Under the jurisdiction of the California Business, Transportation and Housing Agency, a cabinet-level post, the Banking Commissioner supervises all state-chartered banks. If insured, state institutions also operate under supervision of the FHFB.

2.8 Trade Associations

In addition to statutory regulatory agencies, a variety of trade associations help foster and promote the interests of member firms. Membership is strictly voluntary, but the benefits are great enough to provide broad appeal to lenders to join. It is axiomatic that where a community of interests exists, firms will band together in order to protect and enhance those interests.

Several important trade associations are the following:

1. *California League of Savings Institutions*. Headquartered in Los Angeles, this organization consists of both state and federally chartered California-based savings institutions.
2. *Mortgage Bankers Association of America (MBA)*. This trade association comprises the principal investors and lending interests in

the mortgage banking field. The organization and its members have as their chief interest the urban mortgage field. Membership combines into one group all of the leading lenders in the mortgage industry. For over a half century the MBA has devoted extensive research and study to providing better and more readily available mortgage financing so that large numbers of people in various income groups can acquire homes.

3. *American Bankers Association (ABA)*. Commercial banks throughout the nation, both federally and state chartered, may join this association. This voluntary organization provides valuable financial data to member banks, government agencies, economists and researchers, and the public at large. The ABA also offers a broad educational program through the American Institute of Banking.
4. *Independent Bankers Association (IBA)*. This association consists of many members whose banks are not part of a large bank chain. Many independent bankers hold membership in the ABA as well.
5. *Institute of Life Insurance*. This institute, located in New York, comprises the voluntary membership of most of the 1800 life insurance companies operating throughout the United States. Its *Life Insurance Fact Book* is published annually and is highly informative not only as to life insurance facts but also for those interested in real estate portfolios of member firms.

SUMMARY

Savings banks (thrifts), commercial banks, and life insurance companies are major providers of real estate mortgage funds. Each operates according to statutory provisions of federal and state laws, by-laws of the individual institutional lender, and self-imposed policies, which vary according to market conditions. In general, savings banks offer the highest loan-to-value ratios in the area of conventional loans, and they specialize in the financing of residential properties.

Commercial banks historically favored commercial and industrial properties but recently have been very active in residential properties. Another major bank role is in construction financing, since banks are more prone to quick turnover of deposits held in the form of checking (or demand) accounts. Life insurance companies have the broadest lending powers of the institutional lenders but favor only prime properties and large loan packages. They deal through loan correspondents in areas where loan demand is high but where they have no offices.

Besides policing themselves through individual efforts, institutional lenders (institutionals) are subjected to rules and regulations by various government agencies and trade associations. Federally chartered savings banks are regulated by the Federal Housing Finance Board and the Savings Association Insurance Fund, while state-chartered savings banks are supervised by the California Banking Commissioner. Federally chartered commercial banks are governed by the Federal Reserve Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, while the California Department of Banking oversees state-chartered commercial banks.

IMPORTANT TERMS AND CONCEPTS

Bridge loan

Commercial bank

Correspondents

Equity participation

Federal Deposit Insurance Corporation (FDIC)

Federal Home Loan Mortgage Corporation (FHLMC)

Federal Housing Finance Board

Federal Reserve Bank Board (FRBB)

Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)

Financial intermediary

Institutional lenders

Interim loans

Life insurance company

Loan-to-value ratios

Lock-in clause

Mutual savings bank

Office of Thrift Supervision (OTS)

Pension funds

Private lenders

Savings Association Insurance Fund (SAIF)

Savings banks

Swing loan

Take-out loans

Thrift institutions

Time deposits

Trade associations

REVIEWING YOUR UNDERSTANDING

Questions for Discussion

1. **Briefly explain the difference between a commercial bank and a savings bank (thrift).**
2. **List three lending characteristics for each of the following:**
   a. savings bank
   b. commercial bank
   c. life insurance company
3. **Identify one trend affecting the lending policies for each one of the principal lending institutions operating in California.**
4. **What is the difference between a regulatory agency and a trade association?**

Multiple-Choice Questions

1. Which of the following is *not* an institutional lender?
   a. mortgage company
   b. commercial bank
   c. savings bank
   d. life insurance company
2. Which lender typically specializes in construction loans?
   a. life insurance company
   b. mortgage company
   c. savings bank
   d. commercial bank
3. A checking account is also known as a
   a. time deposit.
   b. demand deposit.
   c. certificate of deposit.
   d. personal account.
4. Variable annuities are most typically associated with
   a. commercial banks.
   b. mutual savings banks.
   c. life insurance companies.
   d. savings banks (thrifts).

5. The relatively sudden flow of funds out of thrift institutions into the stock market is called
   a. reverse annuity.
   b. disintermediation.
   c. reintermediation.
   d. variable annuity.
6. Which class of lenders experienced the greatest “crisis” in the 1980s?
   a. commercial banks
   b. mutual savings banks
   c. life insurance companies
   d. savings and loan associations
7. Loans combining construction and permanent financing are commonly referred to as
   a. dual.
   b. take-out.
   c. all-inclusive.
   d. combination.
8. Which institutional lender favors very large commercial property loans?
   a. savings banks
   b. credit unions
   c. life insurance companies
   d. savings banks
9. Passbook savings accounts are technically
   a. time deposits.
   b. demand deposits.
   c. commercial deposits.
   d. industrial deposits.
10. Which law deregulated portions of the lending industry?
   a. Equal Credit Opportunity Act
   b. Truth-in-Lending Act
   c. Depository Institutions and Monetary Control Act
   d. none of the above
11. In their efforts to raise money for mortgage lending, savings banks have turned to such devices as
   a. mortgage-backed bonds.
   b. disintermediation.

   c. unsecured personal loans.
   d. all of the above.

12. The bulk of funds held by commercial banks is in the form of
    a. certificates of deposit (CDs).
    b. cash.
    c. demand deposits.
    d. securities.

13. Some institutional lenders have a threshold that requires private mortgage insurance for loan-to-value ratios that exceed:
    a. 50%
    b. 80%
    c. 70%
    d. 60%

14. A loan provision that prevents an early payoff of a loan prior to a set date is called
    a. a prepayment clause.
    b. a lock-in clause.
    c. a subordination clause.
    d. an acceleration clause.

15. Freddie Mac was established to
    a. provide insurance for savings accounts.
    b. govern the operations of savings banks.
    c. create a secondary market for savings banks.
    d. regulate checking accounts for savings banks.

16. The federal agency that replaced the Federal Home Loan Bank Board as the chief regulator of savings institutions is the
    a. Office of Thrift Supervision.
    b. Savings Association Fund.
    c. Resolution Trust Corporation.
    d. Federal Home Loan Mortgage Corporation.

17. Insuring the deposits of commercial banks and savings banks is the
    a. Office of Thrift Supervision.
    b. Savings Association Fund.
    c. Federal Home Loan Mortgage Corporation.
    d. Federal Deposit Insurance Corporation.

18. When a lender takes a percentage of ownership in a property it is called
    a. equity participation.
    b. a roll-over provision.

c. a shared investment.
d. intermediary subordination.

19. Which federal law tracks the lending practices of banks and thrift institutions to assure fair borrower treatment?
    a. Borrower's Right's Act
    b. Home Fairness Act
    c. Resolution Trust Act
    d. Community Reinvestment Act

20. California-chartered banks are regulated through the
    a. Department of Finance.
    b. Housing Finance Board.
    c. Department of Real Estate.
    d. Department of Banking.