Week 3. Practice Questions (20)

1. How is debt service coverage computed?
(A) Debt service coverage is the available annual account payables after payment of operating expenses divided by the annual debt payment.
(B) Debt service coverage is the available annual cash flow after payment of operating expenses divided by the annual debt payment.
(C) Debt service coverage is the available annual notes payables after payment of operating expenses divided by the annual debt payment.

2. How is the debt to income ratio computed?
(A) Multiplying net equity to debt
(B) Dividing the annual personal debt payments by the annual gross personal income
(C) Dividing the annual income by monthly average liability

3. What are two real estate investment loan types?
(A) Construction loan and real estate investment line of credit
(B) Commercial paper and construction loan
(C) Revolving loan and fixed income security loan

4. After the loan is approved, what document does the banker issue that describes the terms of the agreement?
(A) A Proof of Credit line
(B) Commitment Letter
(C) Acknowledgment Letter

5. Name four items that are included in a typical commitment letter?
(A) Location of business, duration terms, guarantor and loan amount
(B) Guarantor, loan amount, interest rate, and repayment term
(C) History of company, loan amount, collateral, and requirements and conditions

6. What is the purpose of a construction inspector?
(A) The construction inspector visits the construction site in connection with each draw request to provide the bank with an estimate of the percentage of completion of the project.
(B) The construction inspector visits the construction site to speed up the completion of the project.
(C) The construction inspector visits the construction site to estimate the net worth of the project.

7. How many draws are typically included in a residential construction draw schedule?
(A) Ten
(B) Five
(C) Twelve

8. During his presentation, Mr. Matthew shared his neighborhood development projects in the past. What is the threshold amount of investment in whether or not he flips a house?
(A) Less than or equal to $50,000
(B) Less than or equal to $75,000
(C) Less than or equal to $125,000

9. According to Mr. Matthew, what percent of the cost of a real estate development project will a bank typically require the borrow to inject?
(A) 60% to 70%
(B) 30% to 40%
(C) 20% to 30%

10. Which of the following is not included in a real estate cash flow projections?
(A) Vacancy percentage
(B) Effective gross income
(C)Assumptions
(D) Expenses
(E) Total assets

11. General Liability insurance coverage provides protection for
(A) Your Workers injured on the job site
(B) Covers third party injury and property damage only
(C) Covers all liability damage caused at the job site

12. Title Insurance provides the following:
(A) Guarantees that there are no problems with the title
(B) The owner must buy owner's title insurance
(C) Lender's title insurance protects the purchaser of the property
(D) All of the above
(E) None of the above

13. Small Construction or contracting businesses may bundle their general liability exposure with a commercial property insurance policy in a Business Owners Policy (BOP) if
(A) Have over 100 employees
(B) Operate in a high- risk industry
(C) Have a large office or workplace
(D) Your annual revenue is less than one million dollars

14. Workers Compensation protects against injuries at work for the following:
(A) Pays for rehabilitation

(B) Pays the owner of the business
(C) Medical payments for workers
(D) Both (A) and (C)
(E) All of the above

15. According Mr. Campbell, there are three major types of industries: High risk, restricted, and lower risk industries. Out of these three classifications, real estate development is considered to be_?
(A) High risk industry
(B) Restricted industry
(C) Lower risk industry

16. Which of the following properly lists the items that you need when you apply for a business loan?
(A) Business loan application; personal financial statement, spouse's personal information, history of the business, business debt schedule
(B) Business loan application; personal financial statement, management resume, history of the business, business debt schedule
(C) Business loan application; personal financial statement, management resume, history of the business, business physical capital depreciation schedule

17. Which of the following properly lists the items that you need when you apply for a business loan?
(A) Personal tax returns for the most recent 3 years; aging of accounts receivable and payable; IRS Form 4506 signed for business tax returns of personal schedule C.
(B) Personal tax returns for the most recent 10 years; aging of accounts receivable and payable; IRS Form 4506 signed for business tax returns of personal schedule C.
(C) Personal tax returns for the most recent 1 year; aging of accounts receivable and payable; IRS Form 4506 signed for business tax returns of personal schedule C.

18. The five C's of credit are a system used by lenders to gauge the creditworthiness of potential borrowers. The system weighs five characteristics of the borrower and conditions of the loan, attempting to estimate the chance of default. The five C's of credit are Character, Capacity, Capital, Collateral and Conditions. The credit history of a borrower refers to:
(A) Capacity
(B) Conditions
(C) Character

19. According to the five C's of credit, car loans secured by cars and mortgages secured by homes are the examples of:
(A) Capital
(B) Collateral

(C) Character

20. According to Mr. Campbell, which of the following small business loan applicant is most likely to secure a business loan?
(A) An individual FICO score of 825 with no business experience
(B) An individual whose business has generated constant positive cash flows with the DSCR ratio being at least 1.25X.
(C) An individual whose business has run into liquidity problem, but has just partnered with a wealthy doctor as co-signer.

