Course 5: Funding
Practice Questions (20)

1. In everyday conversations, funding and financing are interchangeably used. However, the two terms are not the same in the finance literature. Which of the following statements correctly differentiates these two terms?
(A) Funding is the gradual infusion of capital into a new or recapitalized enterprise, whereas financing is the money that lenders and equity holders provide to a business.
(B) Funding is actually the money provided by companies or by a government sector for a specific purpose. On the other hand, financing is a process of receiving capital or money for business purpose, and it is usually provided by financial institutions, such as, banks or other lending agencies.
(C) Funding is the act of providing funds for business activities such as purchasing or investing; financing is a type of investment institutional investors may utilize for its low-risk, fixed-income characteristics.

2. Both a business loan and a line of credit involve a lender's approval process. Which of the following properly lists three major factors that lenders consider on business funding applications?
(A) Tax exempt; sales; the size of a business;
(B) Credit score; liquidity (cash flows); revenue-to-expense ratio
(C) Duration of a business; a business type; liquidity (cash flows)

3. It is common for small businesses to periodically experience cash flow problems. As such, many active small businesses face financial problems due to payment terms to clients, such as 30, 60, or 90 days to pay. One way to improve cash flow and fix the problem is to use financing. Two common financing solutions to these short-term cash flow problems are (1) lines of credit and (2) invoice (account receivable) factoring. Which of the following businesses would you recommend to utilize an invoice factoring rather than a line of credit for the financing solution?
(A) A business is established and has achieved growth maturity. It can provide timely and accurate financial statements and has solid assets.
(B) A business is relatively new with revenue-to-expense ratio being greater than 2.5X. Its payment terms to clients are on average less than 30 days.
(C) A business is relatively new, growing quickly, with very good commercial clients that pay within 60 days. It has financial problems and cannot produce accurate financial reports.

4. 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

5. According to Mr. Campbell, lending a commercial loan to a small business in the high-risk industries usually requires __________?
(A) Balloon amortization
(B) Underwriting
(C) Corresponding banking

6. 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

7. Which of the following properly lists the items that you need when you apply for a business loan?
(A) Business financial statements for the recent past 10 years, asset acquisition schedules; debt to equity ratio for the recent past 10 years, cash flow projections.
(B) Business financial statements for the recent past 10 years, asset acquisition schedules; business performance financial statement balance sheet, cash flow projections.
(C) Monthly performance income statement for 12 months; business financial statements for the recent past 3 years, interim financial statement; business performance financial statement balance sheet, cash flow projections.

8. 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.

9. 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

10. 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

11. 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 revenue-to-expense ratio being at least 1.5X.
(C) An individual whose business has run into liquidity problem, but has just partnered with a wealthy doctor as co-signer.

12. Which of the following most accurately defines a developer?
(A) Architect that draws up plans for the development
(B) The person who sits and thinks about housing development
(C) The Financier for a development
(D) Just a Builder. Responsible for construction only
(E) The person(s) or entity responsible and accountable for All aspects of the development process from concept to completion

13. A good development team consists of:
(A) Developer and architect
(B) Accountant and attorney
(C) General contractor/builder and management company
(D) All of the above
(E) None of the above – It is better to do it all by yourself.

14. The Louisiana Housing Corporation certifies state CHDO's to allow them access to funding available through the federal HOME Investment Partnership Program. What did we say the acronym CHDO stands for?
(A) Community Housing Development Organization
(B) Common Household Design Options
(C) Community Home Division and Operations
(D) Commonly Hazardous and Dangerous Outputs
(E) All of the above

15. Developers need to have some knowledge of the community they are proposing to serve through the development of affordable housing. Some important ones are:
(A) Infrastructure and financing
(B) Local governmental entities and market area demographics
(C) Assemble a development team

(D) None of the above
(E) All of the above

16. Mr. Russell, program director at Louisiana Housing Corporation discussed in his session that when getting started as a developer, she/he should start small and work-up. One of the programs offered by LHC that allow non-profit developers to access funding for development of up to 4 units is the NOAH program; which stands for:
(A) Now Offering Affordable Housing
(B) Next Opportunity for Application is Here
(C) Non-profit Open-cycle Affordable Housing program
(D) National Optimal Affordable Housing program
(E) None of the above

17. Which of the following most accurately describes "Opportunity Zones Incentive?"
(A) It incentivizes investors to save and re-invest unrealized capital gains into any community development projects.
(B) It is a new community investment tool established by Congress in the Tax Cuts to encourage long-term investments in low-income urban and rural communities nationwide.
(C) It is a new tax-exempt investment tool that can be invested in any 501C 3 organizations operating in economically depressed areas.

18. The amount of tax liability of capital gains from the sale or exchange of Opportunity Zones investment will be $0 if the investment is held for at least (   ).
(A) 5 years
(B) 7 years
(C) 10 years

19. Which of the following correctly states the mission of Community Development Division of Planning & Urban Development at the City of Monroe?
(A) To sustain the quality of individuals residing in the City of Monroe
(B) To improve the quality of life for lower income residents in the City of Monroe
(C) To assist lower income residents by developing properties and constructing affordable housing

20. Subsidized housing is government sponsored economic assistance aimed towards alleviating housing costs and expenses for low-to-moderate income households. Subsidized housing in Monroe includes *except one*:
(A) Monroe Housing Authority (MHA)
(B) Monroe Affordable Housing Units
(C) Section 8 Program for Ouachita Parish
(D) 141 Lofts - 141 Desiard St., Monroe, LA
(E) Standard Enterprises

For Your Information:
According to the Louisiana Economic Development website at
https://www.opportunitylouisiana.com/business-incentives/opportunity-zones
Gov. John Bel Edwards nominated certain low-income census tracts in Louisiana as qualified opportunity zones. The Secretary of the Treasury certified them. These low-income tracts were determined based on a strategic review of feedback from local, state and federal elected officials; economic and community development organizations; private developers; private equity firms; non- profit organizations; churches; and individuals. Currently, the State of Louisiana has **(150)** qualified opportunity zones.