

Week 2. Practice Questions (14)

Capacity Building and Funding Sources

1. 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
2. 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
3. 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.
4. 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
5. 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

6. 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.
7. 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 payable after payment of operating expenses divided by the annual debt payment.
8. 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
9. 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
10. 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
11. 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
12. 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.

13. How many draws are typically included in a residential construction draw schedule?

- (A) Ten
- (B) Five
- (C) Twelve

14. 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