



## FINAL EXAM

# Course # 771002 Real Estate Financing and Investment

based on the electronic .pdf file(s):

### **Real Estate Financing and Investment**

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pages



10 CPE Credit Hours  
Financial Planning

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## **Chapter 0 - Course Material**

1. The \_\_\_\_\_ is referred to as a closing, settlement, or escrow.
  - Loan process.
  - Title closing process.
  - Qualification process.
  - Title search process.
  
2. Usury occurs when the lender
  - Collects more than the maximum legal rate of interest.
  - Charges less than the maximum legal rate of interest.
  - Loans more than 95% of the appraised value of the property.
  - Charges the state's legal limit.
  
3. What types of credit transactions does Regulation Z cover? I) Credit in excess of \$25,000; II) All real estate transactions involving consumers; III) All real estate transactions involving corporations
  - I only.
  - II only.
  - II and III only.
  - I and II only.
  
4. Regulation Z requires disclosure of credit information regarding: I) finance charges; II) APR; or III) date of closing?
  - I only.
  - II only.
  - I and II only.
  - I, II and III.
  
5. Which of the following must be disclosed as a finance charge under Regulation Z?
  - Discount points.
  - Title examination fees.
  - Appraisal fees.
  - Survey fees.
  
6. The annual percentage rate (APR) is the annual cost of credit and is
  - The same as the contract rate in a note.
  - A rate that includes any adjustments for service charges and discount rates.
  - An estimate of the nominal interest rate on the mortgage.
  - The same as the debt service.

7. A mortgage lender's practice of refusing to make mortgage loans in certain neighborhoods because of high risk or lack of profit potential is called

Blacklisting.

Mortgage screening.

Redlining.

Black balling.

8. In order to prevent the practice of redlining and divestment in central city areas, Congress passed the \_\_\_\_\_.

Fair Credit Reporting Act

Community Reinvestment Act..

National Flood Insurance Program

Community Divestment Act.

9. All federally chartered savings and loan associations must be members of the: I) Federal Home Loan Bank; II) Federal Deposit Insurance Corporation; III) Federal Reserve System; IV) Federal Savings Insurance System.

I only.

I and II only.

I and III only.

I and IV only.

10. Fannie Mae and Freddie Mac operate in which mortgage market?

Primary market.

Secondary market.

Subprime-market.

Hedging market.

11. Which of the following is a buyer in the secondary mortgage market?

Federal Reserve System.

Veterans Administration.

Federal Housing Administration.

Federal National Mortgage Association.

12. The mortgage purchase procedure used by the FNMA is conducted through an auction process referred to as a (an)

Closed market auction.

Open market auction.

Free market system auction.

Straight pass through auction.

13. When using the fully amortized level payment mortgage

The amount of payment on the principal stays the same.

The interest payment is always greater than the principal payment.

Each payment remains the same.

A lump sum payment is made at the end of the mortgage.

14. In a construction loan mortgage

The funds are advanced before construction begins.

The funds are not advanced until construction is completely finished.

The loan is advanced in installments at various stages of construction.

Interest on the total loan begins at the beginning of construction.

15. The most predominant form of conventional mortgage is the

Fixed rate conventional mortgage.

Variable rate conventional mortgage.

Adjustable rate mortgage.

FHA mortgage.

16. A conventional loan would differ from a FHA or VA loan in that the conventional mortgage loan would have

Lower monthly payments.

Lower loan-to-value (LTV) ratio.

Lower interest rates.

Lower down payment requirements.

17. If a purchaser using FHA financing is paying more than the appraised value, the difference between the appraised value and the sales price

Can be a junior mortgage.

Can be a straight mortgage.

Must come from the purchaser's assets.

Can be a purchase money mortgage.

18. If the buyer gives a note or bond and a mortgage to the seller as part of the purchase price, the resulting mortgage is commonly referred to as a (an)

Purchase money mortgage.

Package mortgage.

Security mortgage.

Open end mortgage.

19. If the buyer of a home wanted to include in the terms of a mortgage the financing of such items as a stove, refrigerator and air conditioning, the mortgage used would be a (an)

Open mortgage.

Wrap around mortgage.

Package mortgage.

Blanket mortgage.

20. A buyer agrees to purchase a tract of land for \$40,000. The buyer is only able to get a mortgage for \$32,000. Rather than let the deal fall through, the seller agrees to accept \$4,000 cash and a note for the remaining \$4,000. This is known as what?

A conventional loan.

A home equity mortgage.

A purchase money mortgage.

A reverse mortgage.

21. A mortgage loan which gives the mortgages a fixed interest return plus a percentage of gross sales is called a (an)

Blanket mortgage.

Wrap around mortgage.

Participation mortgage.

Insured mortgage.

22. \_\_\_\_\_ is NOT one of the indexes used in adjustable rate mortgage.

London Interbank Offered Rate (LIBOR).

Fund rate.

1 year treasury bills.

San Francisco District 12 cost of funds.

23. The term lenders use to describe the relative amount of money they will loan on a given piece of property is the

Debt to equity ratio.

Times interest earned.

Loan to value ratio.

Gross income multiplier.

24. Before you invest any funds, you should evaluate

Your present financial condition.

The financial market condition.

Your tax situation.

Your risk profile.

25. What is NOT a source of investment funds?

Gift.

Disposable income.

Other people's money.

Tax rebates.

26. Which of the following is least important in making investment decisions?

Liquidity.

Maturity.

Return.

Risk.

27. Investment vehicles do NOT include

Real estate.

Futures and options.

Gambling.

Gold and silver.

28. Which of the following is NOT an example of real assets?

Corporate stocks.

Real estate.

Commodities.

Gold.

29. A principal disadvantage of real estate is that it does NOT provide a hedge against

Inflation.

Interest rate risk.

Purchasing power risk.

Market risk.

30. A rapid increase in inflation will cause interest rates to \_\_\_\_\_, and bond and stock prices to \_\_\_\_\_.

Fall, rise.

Fall, fall.

Rise, fall.

Rise, rise.

31. The return on investment typically comes from two sources: \_\_\_\_\_ and capital gains (losses).

Selling price.

Liquidity.

Current income.

Purchase price.

32. Current income is derived from income property by

Appreciation.

Depreciation.

Rental payments.

Tax savings.

33. An advantage to buying a home to the person who is to occupy it as his or her personal dwelling is its

Relatively low maintenance.

Liquidity.

Equity buildup.

Depreciation write off.

34. Which of the following is NOT an advantage of buying has over renting?

- Appreciation.
- Tax deductibility.
- Low maintenance.
- Tax savings.

35. Owning a(n) \_\_\_\_\_ is still the best tax shelter there is.

- Bond.
- Home.
- Stock.
- Mutual fund.

36. Considerations in arriving at how much one should pay for a home include all the following EXCEPT

- Escrow fees.
- Insurance.
- Amount of mortgage payments.
- Property taxes.

37. The most a typical home buyer should spend on housing costs is generally \_\_\_\_\_ of his or her monthly take home pay

- 66 2/3%.
- 40%.
- 35%.
- 50%.

38. You should consider a fixed rate loan over an ARM, if you

- Plan to move in the near future.
- Prize the security of constant payments.
- Expect your income to fluctuate.
- Have no plan for sizable debts, like auto or educational loans.

39. The principle of maximizing the use of other people's money (OPM), providing a large percentage of return on a relatively small outlay is called

- Liquidity.
- Appreciation.
- Cash flow.
- Leverage.

40. Depreciation taken as a deduction on annual income tax is a form of

- Tax increment.
- Tax evasion.
- Tax shelter.
- Cash outflow..

41. Types of direct real estate investments consists of all the following EXCEPT

- Undeveloped land.
- Commercial.
- Chattel.
- Residential rental.

42. An example of commercial property is

- Condominiums.
- Motels.
- Undeveloped land.
- Houses.

43. One drawback to investing in real estate is the

- Potential for appreciation.
- Lack of liquidity.
- Inflation hedge.
- Tax benefits.

44. \_\_\_\_\_ is NOT a form of real estate investment

- Apartments.
- Improved land.
- Oil and gas.
- Unimproved land.

45. A closed end investment company that invests money in mortgages and various types of investment real estate is called

- Mutual fund.
- Limited partnership.
- Insurance company.
- REIT.

46. REITs differ from other real estate investments because

- Their income is tax exempt.
- Their shares are publicly traded.
- They only offer capital gains.
- The investor is guaranteed income.

47. What type of REITs invests in income-producing properties?

- Equity REITs.
- Mortgage REITs.
- Securitized REITs.
- General REITs.

48. Certain terms used in real estate investments have applications similar to those used in security analysis. For example, the price earnings (P/E) ratio found in the analysis of stocks is equivalent to \_\_\_\_\_ in real estate investment analysis.
- Earnings on sales price.
  - Net spendable index.
  - Cost recovery.
  - Gross income multiplier.
49. Which of the following is equal to before-tax cash flow from operations?
- Net operating income – Debt service.
  - Gross operating income – Debt service.
  - Gross operating income – Operating expense.
  - Net operating income – Income tax.
50. Calculate the capitalization rate for the following investment: Net operating income (NOI) = \$18,750; Purchase price = \$150,000; Equity = 20%
- 10%.
  - 12.5%.
  - 14%.
  - 15%.

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- *Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.*
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