Real Estate Finance

Homework 3

Chapters 7 & 8

**Below are 20 multiple choice questions, each worth 5 points. Highlight the answer you think most correct.**

**CHAPTER 7**

**Single Family Housing: Pricing, Investment, and Tax Considerations**

1. Assume that houses in an area appreciate at the rate of 4 percent a year. A borrower expects to have a loan-to-value ratio of 90 percent. What would be the approximate expected appreciation rate on home equity (EAHE)?
   1. 4.0%
   2. 4.4%
   3. 10%
   4. 20%
   5. 40%
2. Which of the following statements best describes the “wealth effect,” as described in the textbook?
   1. Households with equity in their houses are wealthier than households that rent their housing
   2. Expected appreciation in assets, such as home equity, may increase spending on other goods and services in the economy
   3. Economists believe that wealthier households have a positive effect on the housing market, while low-income households have negative effect
   4. A 10 percent increase in homeownership is associated with a 12 percent increase in economic growth
3. A property is purchased for $200,000 with an 80 percent LTV. After five years, the owner’s equity is $80,000. What would be the approximate annual expected appreciation rate on home equity (annual EAHE)?
   1. 13.9%
   2. 14.9%
   3. 20.0%
   4. 80.0%
   5. 100%
4. A region has a location quotient of 0.5 for manufacturing. This means that:
   1. The region’s share of employment in manufacturing is twice as big as the share of manufacturing employment in the U.S
   2. The region’s share of employment in manufacturing is half as big as the share of manufacturing employment in the U.S
   3. Manufacturing is a “base” or “driver” industry for the region
   4. Both A and C
   5. Both B and C
5. The capitalization effect:
   1. Is one of the major factors leading to housing bubbles
   2. Has no impact on housing prices
   3. Relates the quality of public services that individuals receive relative to the taxes that are paid for the services
   4. Relates the interest rate on mortgage loans to the value of residential real estate
6. The objective of appraisal is to:
   1. Establish the highest possible price that a property can sell for
   2. Establish the most probable price that would be paid for property under competitive market conditions
   3. Establish the market value for a property’s land without any structures (such as a house)
   4. Establish the market value for a property if the property is put to its highest and best use
7. An appraisal usually contains three approaches to valuation. Which of the following is NOT one of those approaches?(

(A) The Market Approach

(B) The Ratio Approach

(C) The Cost Approach

(D) The Income Approach

1. The subject of an appraisal has only two bedrooms, but one of the comparables used in the appraisal has three. If the adjustment for a third bedroom is $5,000, the adjustment would be:

(A) A $5,000 increase to the comparable's selling price

(B) A $5,000 decrease to the comparable's selling price

(C) A $5,000 increase to the subject's selling price

(D) A $5,000 decrease to the subject's selling price.

1. The appraised value of a property usually represents the:

(A) Actual value of the property

(B) Actual selling price of the property

(C) Actual opinion of an appraiser

(D) Actual replacement value of the property

1. When considering the federal income tax treatment for housing, which of the following is tax deductible?

(A) Loan amortization

(B) Interest on mortgage loans

(C) Insurance

(D) None of the above

**CHAPTER 8**

**Underwriting and Financing Residential Properties**

1. In some cases, lenders require that borrowers obtain default insurance. The purpose of such insurance is to:
   1. Decrease the effective interest rate on the loan
   2. Increase the value of the underlying property
   3. Protect the borrower from defaulting on the loan
   4. Protect the lender from losses associated with borrower default on the loan
2. Which of the following is NOT typically included in housing costs used to calculate a borrower’s payment-to-income ratio?
   1. Principal and interest on the mortgage applied for
   2. Mortgage insurance
   3. Property taxes
   4. Utilities
   5. All of the above are included in the housing costs
3. A conforming loan:
   1. Exceeds the loan limits of loans that Fannie Mae and Freddie Mac can buy
   2. Meets loan limits of loans that Fannie Mae and Freddie Mac can buy
   3. Cannot be purchased by GSEs such as Fannie Mae and Freddie Mac
   4. Is another term for fixed-rate mortgage loan
4. A jumbo loan:   
   (A) Is another term for an adjustable-rate mortgage loan  
     
   (B) Meets loan limits of loans that Fannie Mae and Freddie Mac can buy

(C) Tends to have a higher interest rate than conforming loans

(D) Has lower LTV requirements than conforming loans

1. Payment to income ratio is BEST described as:
   1. The factor used to determine if interest on mortgage loans is tax deductible
   2. The only measure of a borrowers ability to fulfill his or her loan obligations
   3. The ratio of the estimated rental income to the expected payments on a rental property
   4. The ratio of the expected payments on a property to the income of the borrower
2. An escrow account:
   1. Ensures that a default insurance policy does not lapse if a borrower is in danger of default
   2. Ensures that sufficient funds are collected to make annual hazard insurance and property tax payments
   3. Is a non-interest-bearing account into which a borrower prepays certain fees and taxes
   4. All of the above
   5. None of the above
3. Which of the following groups customarily does NOT attend real estate closing?

(A) The buyer and seller

(B) The buyer’s and seller’s immediate families

(C) Real estate broker(s)

(D) Settlement agent(s)

1. What document usually summarizes the sources, disbursements, charges and credits associated with a real estate closing?

(A) The purchase contract

(B) The deed of trust

(C) The listing agreement

(D) The settlement statement

1. Which of the following is typically NOT one of the financing costs associated with the financing of real estate?

(A) Closing fees

(B) Loan application and credit report fees

(C) Property inspection and appraisal fees

(D) Loan discount and prepaid interest fees

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1. Which of the following is typically NOT one of the settlement costs that are escrowed over the life of the loan? (C)

(A) Property taxes

(B) Mortgage insurance

(C) Selling commissions

(D) Hazard insurance