

FIRE 305: Principles of Real Estate  
Third Examination  
Fall Semester, 2014

---

PRINT AND SIGN YOUR NAME

1. A buyer can afford no more than \$550 per month in payments. The most favorable loan available in the market is a 30 year loan at 9%. What is the maximum affordable house with a 10% down payment?

- a. \$67,112
- b. \$74,569**
- c. \$79,975
- d. \$81,636

2. A lender makes a \$95,000 mortgage at 8.5% interest with monthly payments for 25 years. How much principal will be repaid during the fourth year of the loan?

- a. \$9,180
- b. \$1,481**
- c. \$1,376
- d. \$7,699

3. A real estate investment is expected to return to its owner \$3,700 per year for 16 years after expenses. At the end of year 16, the property is expected to be sold for \$49,000. Assuming the required rate of return is 14% for investments with this degree of risk, what is the net present value of this property if the purchase price is \$30,000 today?

- a. 798**
- b. \$27,949
- c. -113
- d. \$27,210

4. A borrower is offered a mortgage loan for \$120,000 with an interest rate of 10% and a 30-year amortization period with monthly payments. The lender charges four discount points. What is the effective interest rate?

- a. 10%
- b. 9%
- c. 10.49%**
- d. 10.24%

5. You are buying a \$162,000 house with a 20% down payment and a fixed-rate mortgage for the remainder at 8.75% for 30 years with monthly payments. What is the balance or amount outstanding on the loan at the end of the fourth year?

- a. \$125,333.08
- b. \$136,666.35
- c. \$135,390.67**
- d. \$146,326.89

6. In a promissory note, which clause calls for all payments being due immediately in the case of default?

- a. defeasance
- b. acceleration**
- c. due on sale
- d. prepayment

7. In most cases, real estate is purchased by means of

- a. a secured loan.**
- b. cash.
- c. an unsecured loan.
- d. None of the above

8. In the event of mortgage default, FHA-insured loans provide protection for the

- a. borrower.
- b. seller.
- c. lender.**
- d. FHA.

9. Which of the following categories account for the largest portion of all mortgage credit in the United States?

- a. 1 - 4 family residential**
- b. Multifamily residential
- c. Commercial
- d. Farm

10. Unlike FHA loans, VA loans are backed by

- a. title insurance.
- b. mortgage insurance purchased by the borrower.
- c. mortgage insurance paid for by the federal government.
- d. a guarantee program backed by the federal government.**

11. Which of the following organizations was created specifically to improve the housing finance system following the Great Depression of the 1930s?

- a. Government National Mortgage Association
- b. Federal Home Loan Mortgage Corporation
- c. Federal National Mortgage Association
- d. Federal Housing Administration**

12. The percentage of a borrower's gross monthly income required to meet monthly housing expenses (only) is called the

- a. mortgage debt ratio.**
- b. total debt ratio.
- c. loan-to-value ratio.
- d. income-to-debt ratio.

13. Given a loan applicant's gross income of \$2,500, a mortgage payment of \$600, car payment of \$250, property tax of \$90, insurance of \$30, an allowable total debt ratio of 36%, and an allowable mortgage debt ratio of 28%, the applicant would qualify by

- a. the mortgage debt ratio only.
- b. both the mortgage debt and total debt ratios.
- c. the total debt ratio only.
- d. neither ratio.**

14. Students of real estate should study factors that influence demand at the national, regional, community, and neighborhood levels because

- a. each of these factors affect the value and marketability of individual parcels of real estate.**
- b. Americans should broaden their focus.
- c. upcoming activity in the U.S. Senate may alter the political landscape.
- d. All of the above

15. Which of the following factors may help determine a community's comparative advantage?

- a. Transportation and education facilities
- b. Labor force and community leadership
- c. Climate and natural resources
- d. All of the above**

16. In a space market with an upward sloping supply function, an increase in demand for space would be met with

- a. an increase in equilibrium price.