Midterm Practice Questions – Spring 2022

1) A constant payment mortgage loan has:
   a) Constant monthly payments and a variable interest rate
   b) Variable monthly payments and a fixed interest rate
   c) Constant monthly payments and a fixed interest rate
   d) Variable monthly payments and a variable interest rate

2) A lower LTV loan:
   a) Reduces the risk to the borrower but increases the risk to the lender
   b) Increases the risk to the borrower but reduces the risk to the lender
   c) Reduces the risk to the borrower and reduces the risk to the lender
   d) Increases the risk to the borrower and increases the risk to the lender

3) A DSCR that is much greater than 1.0:
   a) Provides less debt service coverage than a DSCR of 1.0
   b) Is safer for the lender than a lower DSCR
   c) Will lead to a default on the mortgage loan and foreclosure of the property
   d) Means the property's NOI is insufficient to pay the monthly debt service

4) A loan agreement that contains a prepayment lockout clause:
   a) Is a benefit for the borrower
   b) Does not allow the borrower to prepay the loan during a specified period of time
   c) Allows the borrower to pay a significant penalty to prepay the loan before maturity
   d) Prevents the lender from negotiating a prepayment with the borrower

5) In periods of "tight money", lenders underwrite loans with:
   a) Higher LTVs and higher DSCRs
   b) Lower LTVs and lower DSCRs
   c) Higher LTVs and lower DSCRs
   d) Lower LTVs and higher DSCRs

6) An adjustable rate mortgage loan with a teaser start rate of 1.5% for the first loan year, an index of the 30-day SOFR, a margin of 2.0%, a periodic interest rate increase cap of 2% and a lifetime interest rate cap of 8.5% with annual adjustments, would have a maximum interest rate of what for the fourth loan year if the 30-day SOFR is 4.5% at that time?
   a) 5.5%
   b) 6.5%
   c) 7.5%
   d) 8.5%

7) An adjustable rate mortgage loan with a teaser start rate of 1.0% for the first loan year, an index of the 11th District COFI rate, a margin of 2.0%, a periodic interest rate increase cap of 1% and a lifetime interest rate cap of 7.0% with semi-annual adjustments, would have a maximum interest rate of what for the first half of the fourth loan year if the 11th District COFI rate is 6.0% at that time?
   a) 5.0%
   b) 6.0%
   c) 7.0%
   d) 8.0%

8) If a borrower fails to make a monthly mortgage payment on time, the borrower will be in default and there will always be negative amortization of the mortgage loan if the amount paid by the borrower that month is:
   a) More than the monthly principal amortization
   b) Less than the monthly principal amortization
   c) More than the monthly accrued interest
   d) Less than the monthly accrued interest

9) If the loan to value ratio is 75%, the stated annual interest rate is 5%, the loan term is 30 years fully amortizing, and the down payment is $600,000, what is the purchase price of the property?
   a) $600,000
   b) $900,000
   c) $1,800,000
   d) $2,400,000

10) If the loan to value ratio is 75%, the stated annual interest rate is 5%, the loan term is 30 years fully amortizing, and the down payment is $600,000, what is the monthly payment on the loan?
   a) $3,220.93
   b) $4,831.39
   c) $9,662.79
   d) $12,883.72

11) What is the APR on a 30-year fully amortizing fixed rate mortgage loan in the amount of $1,000,000 if the stated annual interest rate is 3.75% and the lender charges 2 points as an origination fee, $1,800 for an appraisal and $36 for a credit report?
   a) 3.93%
   b) 3.90%
   c) 3.75%
   d) 3.57%

12) If a lender wants to achieve an APR of approximately 4.50% on a 30-year fixed rate loan for $750,000 with a stated annual interest rate of 4.25 %, how many points should the lender charge the borrower?
   a) 1
   b) 2
   c) 3
   d) 4

13) An investor is considering a retail property investment in San Diego at a price of $4,000,000 with the following annualized financial information:

Gross rent and other income ………	$ 400,000
Operating Expenses …………………	$ 100,000
Annual Tax Depreciation ………..….	$ 120,000
Assumable interest-only mortgage ….	$2,000,000 at 5% per year

   What is the acquisition cap. rate?
   a) 10.0%
   b) 7.5%
   c) 4.5%
   d) 2.0%

14) An investor is considering a retail property investment in San Diego at a price of $4,000,000 with the following annualized financial information:

Gross rent and other income ………	$ 400,000
Operating Expenses …………………	$ 100,000
Annual Tax Depreciation ………..….	$ 120,000
Assumable interest-only mortgage ….	$2,000,000 at 5% per year

   What is the property's before tax cash flow?
   a) $300,000
   b) $200,000
   c) $180,000
   d) $80,000

15) An investor is considering a retail property investment in San Diego at a price of $4,000,000 with the following annualized financial information:

Gross rent and other income ………	$ 400,000
Operating Expenses …………………	$ 100,000
Annual Tax Depreciation ………...…	$ 120,000
Assumable interest-only mortgage ….	$2,000,000 at 5% per year

What is the property's taxable income?
a) $300,000
b) $200,000
c) $180,000
d) $80,000

16) The total annual rent paid by a tenant under a lease for a commercial property in Houston can be higher than the annual base rent amount if the lease contains a:
a) CPI clause
b) Percentage rent clause
c) Triple net rent clause
d) All these answers are correct

17) If the unleveraged first year return on equity on an apartment building in Austin is projected to be 10% and the total annual borrowing cost on the existing mortgage loan is calculated to be 5%, then the leveraged return on equity on the investment should be:
a) Higher than 10%
b) Lower than 10%
c) Exactly 10%
d) Determined by the DSCR

18) If interest rates increase significantly, it is likely that:
a) Cap rates will rise, causing real estate prices to rise
b) Cap rates will rise, causing real estate prices to fall
c) Cap rates will fall, causing real estate prices to fall
d) Cap rates will fall, causing real estate prices to rise

19) Appraisers of single-family homes primarily rely on which of the following approaches to valuation:
a) Cost Approach
b) Income Approach
c) Comparable Sales Approach
d) Discounted Present Value Approach

20) A fee simple estate in real property gives the buyer the right to:
a) Own the real estate
b) Use the real estate
c) Possess the real estate
d) All these answers are correct

21) What is the DSCR for a $2.5 million property generating a 7.5% before tax annual return on equity with a $1.5 million ten-year interest-only first mortgage loan at a 5% annual interest rate?
a) 2.50
b) 2.00
c) 1.33
d) 1.00

22) A lender’s policy of title insurance insures:
   a) That there will be no outstanding legal claims against the property at the time of purchase
   b) That any insured title claim against the property will be covered up to the loan amount
   c) That the owner will be insured only in the event of a claim that the title was fraudulently transferred
   d) That the lender will be insured for any losses if a fire destroys the property

23) A high LTV loan is used by property buyers for all the following reasons, EXCEPT:
   a) To increase the return on invested equity
   b) To reduce the amount of cash required to close the transaction
   c) To reduce the risk of a property foreclosure due to a loan default
   d) To increase the leveraged IRR on the investment

24) The APR on a 30-year fixed rate fully amortizing home mortgage loan for a condominium in Tarzana will be:
   a) Lower than the contract interest rate on the loan if the loan has points, fees and other loan costs that are paid by the borrower out of the loan proceeds at closing
   b) Higher than the effective yield to the lender if the loan has an origination fee of one percent of the loan amount and a one percent prepayment penalty and the loan is repaid in full before the maturity date
   c) The same as the effective yield to the lender if the loan has an origination fee of one percent of the loan amount and a one percent prepayment penalty and the loan is repaid in full before the maturity date
   d) Lower than the effective yield to the lender if the loan has an origination fee of one percent of the loan amount and a one percent prepayment penalty and the loan is repaid in full before the maturity date

25) Commercial property tenants might prefer a gross lease over a triple net lease:
   a) Because a gross lease requires the tenant to reimburse the landlord for all the operating expenses, including property taxes, insurance, and repairs and maintenance, for the leased premises
   b) Because a triple net lease requires the landlord to reimburse the tenant for all the operating expenses, including property taxes, insurance, and repairs and maintenance, for the leased premises
   c) If the total of the triple net lease rent and expense reimbursements would exceed the gross lease rent
   d) If the gross lease rent would exceed the triple net lease rent by an amount that is substantially more than the expected triple net lease expenses