

FIN/REAL Exam 1 Practice

Name _____

Signature _____

Note: In calculation questions, your answer may be different by "rounding" amounts. Choose the closest answer.

1. Ownership of real estate is usually transferred by way of a legal deed. Which of the following is NOT a recognized type of deed? Ch1

(A) Good deed

(B) Special warranty deed

(C) General warranty deed

(D) Bargain and sale deed

} THESE ALL DISCUSSED IN SLIDES

2. A "mechanic's lien" is a unique claim that can affect real property interests where contractors have done some work on the property. What is the effective date of this type lien? Ch1

(A) The date the work was contracted for

(B) The date the work was done

(C) The date the invoice was sent by the contractor

(D) 60 days after the contractor's invoice date

GENERAL RULE

3. All of the following are common legal terms used in describing a real estate interest EXCEPT: Ch1

(A) easement

(B) lease

(C) lien

(D) income property

} ALL VERY SPECIFIC LEGAL TERMS

← NOT A LEGAL TERM. JUST ECONOMIC

4. If a lender loans money for the purchase of real estate, that lender would typically have: Ch2

(A) No interest in the property

(B) A leasehold interest

(C) A secured interest

(D) An easement right on the property

← INTEREST IS PERFECTED, ALSO CALLED A LIEN

5. Distinguish between a mortgage and a note: Ch2

(A) They are the same

(B) The mortgage is the security and the note is the promise to pay

(C) The note is the security and the mortgage is the promise to pay

(D) The mortgage only exists if there is a default on the note

← MORTGAGE (OR DEED OF TRUST) IS SECURITY

6. If a mortgage lender "assigns" a loan, this usually means: Ch2

(A) The lender has put a sign on the property

(B) The lender has guaranteed the loan

(C) The lender has flagged the loan as problematic

(D) The lender has sold the loan to another party

← HAPPENS OFTEN

7. If a mortgage lender is pursuing a "deficiency judgement" then the loan must be: Ch2

(A) worthless

(B) recourse \leftarrow THIS MEANS LENDER CAN SUE FOR SHORTFALL IF SECURITY IS INSUFFICIENT

(C) non-recourse

(D) deficient in its legal documents

8. If a mortgage loan goes into default, all of the following are possible resolution scenarios EXCEPT: Ch2

(A) extension agreement

(B) land contract \leftarrow REFERS TO SOMETHING COMPLETELY DIFFERENT

(C) deed in lieu

(D) foreclosure

9. Properties are sometimes financed by more than one mortgage. A lender other than the primary lender can be referred to by all of the following terms EXCEPT: Ch2

(A) second mortgage holder

(B) senior mortgage holder \leftarrow SENIOR IS FIRST LIEN, OTHERS ARE NOT

(C) junior lienholder

(D) subordinate mortgagee

10. Most residential mortgages involve a fixed monthly payment over a specified period of time. Using financial terminology, this series of cash flows is also called: Ch3

(A) an annuity \leftarrow CONSTANT PERIODIC CF FOR A PERIOD OF TIME

(B) the future value

(C) the internal rate of return

(D) a perpetuity

11. Assume you buy a valuable piece of land (without debt) for \$3,000,000 and are confident you can sell it to a large corporate buyer in 6 years and make 8% annually on your investment. What would your (net) sales price of the land have to be to accomplish this? Ch3

(A) \$1,890,509

$$N = 6$$

$$PMT = 0$$

(B) \$3,000,000

$$i/y = 8$$

$$CPT \ FV = 4,760,623$$

(C) \$4,212,076

$$PV = 3,000,000$$

(D) \$4,760,623

12. As an investor, you have done a spreadsheet showing all the estimated future cash flows associated with the property you are considering buying. Which of the following financial terms best represents the maximum purchase price you would be willing to pay for the property according to your assumptions? Ch3

(A) Present Value = P.V. of ALL FUTURE CASH FLOWS at CHOSEN DISCOUNT RATE

(B) Net Present Value

(C) Future Value

(D) Internal Rate of Return

13. You are negotiating for a \$6,000,000 loan on a building to be purchased for \$7,500,000. The lender agrees to a 9%, 30 year self-amortizing loan with monthly payments. Assuming no fees or reserves, what would the monthly payment be? Ch3

(A) \$36,183

$$N = 30 \times 12 = 360$$

(B) \$48,277

$$i/y = 9 \div 12 = .75$$

(C) \$50,142

(D) \$52,604

$$PV = 6,000,000$$

$$CPT \ PMT = 48,277$$

$$FV = 0 \quad (\text{ALWAYS CHECK UNUSED REGISTERS})$$

NOT RECOMMENDED

14. You have some extra cash in your checking account and decide to invest it for a year. You get some quotes from different banks for a 1 year CD (Certificate of Deposit). Which of the following is the most attractive? Ch3 [INTERMEDIATE: Hint: Calculate FV of each option or use ICONV function]

	N	1/Y	PV	PMT	FV
(A) 6.0% compounded monthly	12	0.5	1	-	1.0617
(B) 6.2% compounded quarterly	4	1.55	1	-	1.0635
(C) 6.4% compounded semi-annually	2	3.2	1	-	1.0650
(D) 6.6% simple interest	1	6.6	1	-	1.0660

BRUTE FORCE METHOD SHOWS (D) IS BEST

15. What is the internal rate of return? Ch4

- (A) The rate that causes the Present Value of a series of future cash flows to be zero.
 (B) The general rate of interest prevailing in a market being considered for investment
 (C) The rate that equates an investment amount with the discounted future cash flows of that investment
 (D) The required rate of return on a proposed investment
- ALMOST: TEXT DEF'N NEEDS THE WORD 'NET'

16. Residential mortgage loans can be structured as fixed rate or variable rate. Which of the following is true: Ch4, 5

→ A.K.A. 'ADJUSTABLE'

- (A) fixed rate loans are preferable to variable rate loans in all cases
 (B) variable rate loans are more difficult to assess as provisions are more complex than for fixed
 (C) variable rate loans generally have higher rates of interest
 (D) fixed rate loans usually have higher default risks

17. Real Estate loans can be structured in different ways. If a loan is set up with constant monthly payments over a fixed term with zero balance due at the end, the loan could also be called a(n) _____ loan? Ch4

- (A) self-amortizing
 (B) negative amortizing
 (C) interest free
 (D) interest only

18. Calculate the monthly payment on a 30 year fixed rate, fully amortizing residential mortgage for \$300,000 at a stated rate of 7% (no fees or points) Ch4

$N = 360$
 $1/Y = 7 \div 12 = 0.5833$
 $PV = 300,000$
 $CPT PMT = 1995.91$

19. What is the interest rate (Annual Percentage Rate which the lender must disclose) on the above loan if the lender also charges 3 points: Ch4

$\Delta PV = (300,000 \times .97) = 291,000$
 $CPT 1/Y = .6087 \text{ (monthly)}$

→ $\times 12 = 7.30$

20. What is the loan balance (or "payoff" amount) on the loan in the above question – after 4 years? [Hint#1: It doesn't matter whether points have been charged. Hint#2: Put the interest rate back to 7%] Ch4

$\Delta N = (30-4) \times 12 = 312 \text{ months remain}$
 $\Delta 1/Y = 7 \div 12 = 0.5833$

- (A) 190,949
 (B) 240,612
 (C) 261,816
 (D) 286,424

$CPT PV = 286,423.68$ (PV AS IF AT END OF YR 4 FOR ALL REMAINING PMTS)

21. In the above loan, where the loan has been paid off at the end of year 4, and where the points were paid, what is the "effective" interest rate over the 4 year life of the loan? Ch4

(A) 7.00%

(B) 7.30%

(C) 7.89%

(D) 8.03%

$$\Delta N = 4 \times 12 = 48$$

$$\Delta PV = 291,000$$

$$FV = -286,423.$$

$$CPT I/Y = 0.6579 \text{ MTHLY} \times 12 = 7.8949$$

22. Which is NOT likely to be a component of an ARM (adjustable rate mortgage)? (Ch5)

(A) A margin

(B) An index

(C) A 30 year rate commitment

(D) Lender fees

CONCEPT IS THAT YOU MIGHT HAVE 30 YRS

BUT "RATE" WILL NOT BE COMMITTED.

USE TABLE BELOW FOR NEXT FOUR QUESTIONS.

	LOAN 1	LOAN 2	LOAN 3	
Initial Interest Rate	?	?	?	SAME
Loan Maturity (years)	30	30	30	SAME
Margin Above Index	3%	---	3%	LOAN 2 MUST BE FRM
Adjustment Interval	1 yr.	---	1 yr.	SAME FOR ARMS
Points	1%	1%	1%	SAME
Interest Rate Adj. Cap	NONE	---	2%/yr.	LOAN 1 IS UNRESTRICTED (NO CAPS)

23. Which loan in the above table is an unrestricted adjustable rate mortgage? (Ch5)

(A) Loan 1

(B) Loan 2

(C) Loan 3

24. Which loan in the above table is a FRM (fixed rate mortgage)? (Ch5)

(A) Loan 1

(B) Loan 2

(C) Loan 3

25. With which loan in the above table does the lender have the lowest interest rate risk and thus should have the lowest initial interest rate? (Ch5)

(A) Loan 1

(B) Loan 2

(C) Loan 3

ARM HAS LOWER INTEREST RATE RISK THAN FRM

LOAN 1 IS UNRESTRICTED - SO NO PROBLEM

CHANGING RATES

LOAN 3 HAS STRUCTURAL LIMITATION DUE TO CAP

26. A borrower takes out a 30-year adjustable rate mortgage loan for \$300,000 with monthly payments. The first year of the loan has a "teaser" rate of 3%. After that, the rate can reset each year with a 2% maximum rate adjustment "cap". At the end of the first year, the unrestricted composite rate is calculated to be 6%. What would the Year 2 monthly payment be? Ch5 [Hint: Multiple steps. Recast loan at the end of year 1.]

IN YEAR 2, RATE GOES UP TO 5% (3+2CAP)

(A) \$1,455
 (B) \$1,600
 (C) \$1,162
 (D) \$1,265

① CALC PMT
 $N = 360$
 $i/y = 3 \div 12$
 $PV = 300,000$ $PMT = 1268.40$

② CALC BALANCE EOY1
 $\Delta N = 29 \times 12 =$
 $CPT PV = 293,737$

③ CALC PYT
 $\Delta i/y = 5 \div 12$
 $CPT PMT = \$1,600$

27. Which of the following is NOT a commonly referenced type of residential mortgage? Ch8

- (A) Conventional conforming
 (B) Jumbo
 (C) Compound
 (D) FHA Insured

28. Which of the following would NOT likely be included on a residential closing settlement statement? Ch8

- (A) Loan fees
 (B) Property tax proration adjustment
 (C) Real estate commission
 (D) Moving costs