

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
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
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
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
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
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

7. If a mortgage lender is pursuing a “deficiency judgement” then the loan must be: Ch2
- (A) worthless
 - (B) recourse
 - (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
 - (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
 - (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
 - (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
 - (B) \$3,000,000
 - (C) \$4,212,076
 - (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
 - (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
 - (B) \$ 48,277
 - (C) \$ 50,142
 - (D) \$ 52,604

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]
- (A) 6.0% compounded monthly
 - (B) 6.2% compounded quarterly
 - (C) 6.4% compounded semi-annually
 - (D) 6.6% simple interest
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
16. Residential mortgage loans can be structured as fixed rate or variable rate. Which of the following is true: Ch4, 5
- (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
- (A) 1,562.12
 - (B) 1,330.60
 - (C) 1,833.33
 - (D) 1,995.91
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
- (A) 6.97 %
 - (B) 7.14 %
 - (C) 7.30%
 - (D) 7.40%
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
- (A) 190,949
 - (B) 240,612
 - (C) 261,816
 - (D) 286,424

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%
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

USE TABLE BELOW FOR NEXT FOUR QUESTIONS.

	<u>LOAN 1</u>	<u>LOAN 2</u>	<u>LOAN 3</u>
Initial Interest Rate	?	?	?
Loan Maturity (years)	30	30	30
Margin Above Index	3%	---	3%
Adjustment Interval	1 yr.	---	1 yr.
Points	1%	1%	1%
Interest Rate Adj. Cap	NONE	---	2%/yr.

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

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