



# MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

**MAIN CAMPUS**

**ORDINARY UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF COMMERCE**

**COURSE CODE:** HBF 2405

**COURSE TITLE:** REAL ESTATE FINANCE

**DATE:** 19<sup>TH</sup> APRIL 2016

**TIME:** 2 HOURS

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## **INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is COMPULSORY

Answer ANY OTHER TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 3 Printed Pages. Please Turn Over. 

**QUESTION ONE (COMPULSORY)**

- a. HPC Lenders made an adjustable rate mortgage of \$. 20,000 with an initial interest of 10 percent for a term of one year. The loan terms provides that the repayments be reset after every four months based on an interest rate determined by a Treasury note marked index. The market index rose in the first four months with the expected interest rates rising to 12 percent, and then declined in the next four months with interests of 8 percent. Prepare a repayment schedule for this loan (10 marks)
- b. Differentiate between the following types of estates
- i. Estate in possession and estate not in possession (4 marks)
  - ii. Freehold estate and leasehold estate (4 marks)
- c. When transacting in real estate, buyers insist on assuring the quantity and quality of the title that they are acquiring and the seller is conveying through the deed:
- i. The term “title” and “deed” are commonly but erroneously used interchangeably in the course of real estate transaction. Differentiate them (4 marks)
  - ii. When is a title said to be
    - a) Good (2 marks)
    - b) Marketable (2 marks)
  - iii. What is the meaning of the term “assurance of title” (4 marks)

**QUESTION TWO**

- a. Identify the steps that are involved in structuring a price level adjusted mortgage (PLAM) (6 marks)
- b. Explain the meaning of the term “easement” as used in real estate giving an example of easement arrangement (4 marks)
- c. A mortgage contract must include a number of items at the very minimum. Identify these items (4 marks)
- d. Differentiate between equity and mortgage REITs (6 marks)

**QUESTION THREE**

- a. What do you understand by the term “mortgage price”? (3 marks)
- b. Explain the meaning of the phrase “Borrower’s right to reinstate” and identify the conditions that a mortgager must meet in exercising this right (7 marks)
- c. Describe the securitization process as applied in secondary mortgage markets (4 marks)
- d. Explain the following types of risk in real estate investments giving practical examples in each
  - i. Environmental risk (3 marks)
  - ii. Management risk (3 marks)

**QUESTION FOUR**

- a. Differentiate between fixed and adjustable rate mortgages (5 marks)
- b. Explain the factors that a lender must consider in determining the price of a fixed rate mortgage (9 marks)
- c. Identify the various ways through which a buyer gets assurance that a title is good and marketable (6 marks)