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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR FOUR**

**THIRD SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 416**

**COURSE TITLE: REAL ESTATE FINANCE**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 09/08/18 TIME: 09.00-12.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FOUR (4) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining THREE (3) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of TWO (2) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Discuss five (5) factors that affect real estate finance in Kenya. **[10 marks]**
2. Consider a mortgage loan of sh. 60,000 at an interest rate of 12% payable annually for five years. Prepare the loan amortization schedule for
3. Fully amortizing CPM loan. **[5 marks]**
4. Partially amortizing CPM mortgage loan if the desired balance at the end of the five years is sh. 40,000 **[5 marks]**
5. Interest only CPM mortgage loan **[5 marks]**
6. Negative amortizing CPM mortgage loan if the desired balance at end of five years is sh. 80,000. **[5 marks]**

**QUESTION TWO**

1. Briefly explain 4 approaches property valuation used in real estate finance. **[8 marks]**

Consider a loan of sh. 60,000 with a 30 years term, originating fee of 3%, interest of 4% (i+p) payable at the begging of every year based on the CPI.

**Required:**

1. Calculate the net cash disbursed. [**4 marks]**
2. Calculate monthly repayments **[4 marks]**
3. Calculate the effective interest rate. **[4 marks]**

**QUESTION THREE**

1. Briefly highlight four (4) classifications of mortgage loans. **[4 marks]**
2. Consider a loan of sh. 60,000 with a term of 30 years. We assume that the ARM interest rate will be adjusted annually. Hence, the first adjustment will occur at the beginning of the second year. At the time, the composite rate will be determined by the index of one year Kenya treasury security, plus 2% margin. we assume that the index of one year Kenya treasury securities takes on a pattern of 10, 13, 15, and 10% for the next four years based on the forward rates in existence at the time each ARM is originated, and the monthly payment interest rate adjustments are made annually

**Required**

1. Determine the payment adjustments, loan balances and expected yields for an ARM with no caps. **[8 marks]**
2. Determine the payment adjustments, loan balances and expected yields for an ARM with caps. [**8 marks]**

**QUESTION FOUR**

1. Clearly explain five (5) measures of investment performance based on cash flow projections.  **[10 marks]**
2. With reference to real estate finance clearly defines the term foreclosure. And explain five alternatives for foreclosure. **[10 marks]**