



STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
AMS 3102: REAL ESTATE AND PROJECT FINANCE

Date: Wednesday, 26th July, 2023

Time: 2 Hours

Instructions

- 1) Answer question one and any other two questions**
- 2) Question one is compulsory and carries 30 marks**
- 3) All other questions carry 20 marks each**

QUESTION ONE

(TOTAL 30 MARKS)

- a) Distinguish the difference between the terms Estate and Real Estate (2 Marks)**
- b) Discuss the main factors that influence interest rate on mortgages (5 Marks)**
- c) Clifford has been working as an administrator in one of the big hotels in Nairobi. He was successful to secure a 20 years' mortgage for the home where he stays with his family from Kenya Commercial Bank (KCB) in 2014. Unfortunately, he lost his job in 2022 during the Covid 19 pandemic and he has been threatened with a foreclosure from KCB. He has asked you to tell if he has any other option on how he should handle the issue before a foreclosure is affected. Explain to him any options available to him instead of a foreclosure (6 Marks)**
- d) Describe the two types of estates not yet in possession (4 Marks)**
- e) Distinguish between reverse mortgage loans and negative amortizing loans (3 Marks)**
- f) HighQ Ltd has a mortgage loan of ksh 12 million made at a nominal interest rate of 14% for 25 years. The mortgage loan is paid monthly.**
 - i. What is the balance of the loan after 12 years assuming fully amortizing pattern is applied? (4 Marks)**
 - ii. What is the balance of the loan after 12 years assuming partial amortizing pattern is applied where a balloon payment of ksh 4 million at maturity date is expected? (4 Marks)**
 - iii. What is the balance of the loan after 12 years assuming interest only payment pattern is applied? (2 Marks)**

QUESTION TWO

(TOTAL 20 MARKS)

- a) Differentiate between an interest on property and an easement (3 Marks)**
- b) Discuss factors that are likely to influence real estate prices (4 Marks)**
- c) Real estate can be classified under three groups, namely Economic characteristics, Physical characteristics and Investable assets. Discuss the characteristics in each group (8 Marks)**
- d) You have an opportunity to buy a Ksh 95,500 monthly annuity for 15 years. Calculate the maximum amount you will sacrifice for it if the required rate of return is 15% per year. (3 Marks)**
- e) Differentiate between Estate in possession and estate not in possession (2 Marks)**

QUESTION THREE**(TOTAL 20 MARKS)**

- a) Explain the contents/requirements of a mortgage (4 Marks)
- b) Explain assumption of mortgage (3 Marks)
- c) A mortgage for Ksh 9 million is made to an individual for home buying. The loan is expected to be repaid in 20 years on a monthly instalment. The real interest rate is 6.5% while the risk premium and Inflation rate is 4% and 5% respectively.
 - i. Calculate the monthly repayment in the event there is no inflation. (3 Marks)
 - ii. Calculate the monthly repayments when inflation is taken into consideration (3 Marks)
 - iii. Explain the effect of inflation on the loan (2 Marks)
- d) Explain tilt effect (2 Marks)
- e) Consumer Price Index CPI, can be used to adjust mortgage interest rates. Discuss the three main problems of using CPI (3 Marks)

QUESTION FOUR**(TOTAL 20 MARKS)**

- a) Explain a foreclosure (2 Marks)
- b) Explain two types of foreclosure (2 Marks)
- c) A loan of ksh 8,500,000 borrowed for 10 years at 9%. The interest rate is adjustable after every one year based on the Consumer price index. If the CPI is 6% after year 1,
 - i. Calculate the monthly repayment for year 1 (3 Marks)
 - ii. What is the loan balance after year one? (2 Marks)
 - iii. Calculate the loan repayments for year two (2 Marks)
- d) Distinguish between the following terms
 - i. Freehold estate and Leasehold estate (2 Marks)
 - ii. Free simple estate and life estate (2 Marks)
- e) Discuss any five contents of a promissory note (5 Marks)

QUESTION FIVE**(TOTAL 20 MARKS)**

- a) Compare between adjustable-rate mortgages and fixed rate mortgages (6 Marks)
- b) Explain a composite rate of interest distinguishing from a teaser rate (4 Marks)

A mortgage loan has the following information

Loan Amount = Sh 8,500,000

Starting Rate = 9%

Term = 18 Years

Adjustment Interval = 1 Year

The loan also has an interest rate cap : 2.5 % Annual Rate Cap

Required:

- i. Compute the monthly payments for year 1 (3 Marks)
- ii. Compute the loan balance at the end of year. (3 Marks)
- iii. Explain the effect of the annual cap rate if composite rate rise to 14% (2 Marks)
- iv. What will be the effect if a payment cap of Ksh 5000 per month is introduced (2 Marks)