



# **MACHAKOS UNIVERSITY**

**University Examinations for 2018/2019 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BANKING, ACCOUNTING & FINANCE**

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR**

**BACHELOR OF COMMERCE**

**BAC414: REAL ESTATE FINANCE**

**DATE: 7/5/2019**

**TIME: 11.00-1.00 PM**

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**INSTRUCTIONS:** Attempt Question One and any other Two Questions

## **QUESTION ONE (COMPULSORY) (30 MARKS)**

- a) Briefly explain the meaning of title assurance. (4 marks)
- b) Identify and briefly explain the different methods of title assurance. (6 marks)
- c) Explain the meaning of mortgage foreclosure and the alternatives available to such action. (5 marks)
- d) Rodgers is considering the purchase of a lot. He can buy the lot today and expects the price to rise to ksh.25,000 at the end of six years. He believes that he should earn an investment yield of 12 percent annually on his investment. The asking price for the lot is ksh.11,000. Should he buy it? (15 marks)

## **QUESTION TWO (20 MARKS)**

- a) Explain the distinction between estate for years and estate from year to year. (4 marks)
- b) X corporation is considering purchase of an interest in a real estate syndication at a price of ksh.60,000. In return, the syndication promises to pay ksh.540 at the end of each month for the next 20years (240months). If purchased : (16 marks)

- i) What would be the rate of return, compounded monthly, on this investment?
- ii) How much total cash would be received on the investment?
- iii) How much is profit and how much is capital recovery?

**QUESTION THREE (20MKS)**

- a) An encumbrance on a title does not automatically make it unmarketable. Explain. (4 marks)
- b) Assume that a mortgage loan for ksh.60,000 is made for 30years at 10% interest. Such a mortgage would require monthly payments of about ksh.527 per month. According to the consensus of lenders in the market place, the prevailing interest rate is 10% which is adequate to compensate them of any risks. However, an unanticipated inflation occurs warranting a 12% interest instead of 10%. What is the magnitude of the loss to the lender? (16 marks)

**QUESTION FOUR (20MKS)**

- a) How can a mechanic's lien achieve priority over first mortgages, if those mortgages were recorded prior in time to the mechanic's lien? (4 marks)
- b) An investor has the opportunity to make an investment that will provide an effective annual yield of 8%. He is considering two other investments of equal risk that will provide compound interest monthly and semiannually, respectively. What must the equivalent annual interest rate be for each of these two investments to ensure that an equivalent annual yield of 8% is earned? (16 marks)

**QUESTION FIVE (20MKS)**

- a) M owns a property . A, holds a first mortgage against it, and B holds a second mortgage .M, defaults on his mortgage payment. A, forecloses without joining B in the foreclosure suit .The property is sold to C at the foreclosure sale .What rights does B have? (4 marks)
- b) A borrower is faced with choosing between two loans. Loan A, is available for ksh.100,000 at 12% interest per annum for 30 years, with a 1% to be included in closing costs. Loan B, would be made for the same amount, but for 11.5% interest per annum for 25 years, with 3% to be included in the closing costs:
  - i) If the loan is repaid after three years, which loan would be a better choice? (8 marks)
  - ii) If it is repaid after five years, which loan would be a better choice? (8 marks)