NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE
PART IV –2ND SEMESTER FINAL EXAMINATION –AUGUST 2009
REAL ESTATE FINANCE [CFI 4205]
TIME ALLOWED: 3 HOURS

INSTRUCTIONS

Answer sections A and any **three** questions in Section B.

SECTION A

1) Four years ago you took out a $2 million commercial mortgage at 7.75 percent interest with a 20-year loan term. Current market rates for a similar loan are now 7.00 percent. How large of a fee (prepayment penalty) must the lender charge to maintain his yield if you were to refinance today? [5]

2) Zpex Properties has entered into a purchase agreement on a Class A shopping center in suburban Kansas City. Projected first-year NOI for this center will be $637,500, with a $7.5 million purchase price.

   Zpex is seeking financing from Friendly Bank, which will provide 25-year financing at 7.75 percent interest with a maximum loan-to-value ratio of 80 percent and a minimum debt coverage ratio of 1.25.

   Based on this information, what is the maximum loan amount Friendly Bank will offer on this building? [6]

3) An investor would like to finance a project costing $2 million with a 70 percent, 25-year loan at 7.75 percent interest. The lender's required debt coverage ratio is 1.25. The project's projected first year NOI is expected to be $210,000.

   a) Based on this information, what is the largest loan the lender will provide? [3]
   b) Briefly describe other factors the lender will consider in underwriting this loan.[6]

4) Mammoth Investments has entered into a purchase agreement on a Class A office building in suburban Denver. Projected first-year NOI for this building will be $520,000, with a $6.5 million purchase price.

   Mammoth is seeking financing from OmniBank, which will provide a 75% LTV loan with an 8.50 percent interest rate, and a 25-year amortization schedule.

   a) At what cap rate is Mammoth purchasing this property? [5]
   b) What will be the annual debt service on this loan? What is the debt-coverage ratio? [5]

c) If OmniBank requires a minimum 1.2 debt-coverage ratio, what is the largest loan they will provide Prell on this property? [5]

d) List three other factors OmniBank will likely consider in deciding whether to approve Mammoth's loan. [5]

<u>SECTION B</u>

5) Explain how Real Estate Financing differs from Business Financing [20]

6) Distinguish Securitisation from traditional Financing. Is the difference skin-deep or surfacial ? [20]

7) Explain how `***title'*** is important to both buyers and sellers of real estate and to lenders [20]

8) Prepayment models try to project the pre-payment behaviour of Mortgage loans overtime. How useful is such an exercise? [20]

END OF PAPER