**Real Estate Finance II**

**Homework 2**

**Chapters 18 & 19**

**Below are 33 multiple choice questions, each worth 3 points. Highlight the answer you think most correct.**

CHAPTER 18: Structuring Real Estate Investments: Organizational Forms and Joint Ventures

TRUE/FALSE

1. An IRR preference will always give the investor a return that is equal to or better than what the return would be with an IRR lookback. True or False
2. A disadvantage of a limited partnership is that any tax losses can be allocated to the partners to reduce their personal taxable income. True or False
3. A general partner is personally liable for the debts of the partnership whereas a limited partner has “limited liability” like shareholders in a corporation. True or False
4. C-corps have the advantage of providing a pass-through of income for tax purposes. True or False
5. Syndications can take the form of corporations, limited partnership, or other organizational forms. True or False
6. When a syndication is offered as a “blind pool” offering, the properties to be purchased are not identified before funds are raised. True or False
7. A limited partnership limits the general partners’ liability to the capital they originally invested. True or False
8. Capital accounts are debited for cash contributed to the partnership and credited for cash distributed to the partner. True or False

Multiple Choice

1. Which of the following statements is TRUE regarding general partnerships?   
   1. They usually are suggested for groups of individuals that are seeking to form a business entity to invest in real estate because of the unlimited liability of each partner.
   2. They usually are *not* suggested for groups of individuals that are seeking to form a business entity to invest in real estate because of the unlimited liability of each partner.
   3. They protect each of the partners from potential losses associated with the partnership’s business activities
   4. They have assessed income taxes at a lower rate than corporations
2. Noncumulative pari passu distribution refers to:
   1. The payment of dividends by S-corps
   2. A preferred payment received by money partners and operating partners
   3. Payments distributed when the enterprise has negative cash flows
   4. The difference in payments received by partners and the payments received by bondholders
3. A partnership agreement provides that, at sale, cash proceeds are distributed first to Mr. Smith in an amount equal to his original investment less any cash distributions previously received, then split 50-50 between Mr. Smith and Ms. Jones. Assume that the cash flows from sale are $1 million. How much would Mr. Smith receive if his initial investment was $400,000 and he previously received $25,000 in distributions?
   1. $312,500
   2. $500,000
   3. $375,000
   4. $487,500
   5. $687,500
4. Which of the following BEST defines the term “real estate syndication?”

(A) A group of investors who have combined their financial resources with the expertise of a real estate professional to carry out a real estate project

(B) An organization that acts as a single legal entity and is held separate from the individual investors

(C) An organizational form of real estate ownership in which income and expenses are passed through to individuals

(D) A group of investors who have combined their financial resources to provide debt funding for a real estate project

1. Tom invested $20,000 in a limited partnership. His share of liabilities from mortgage debt was initially $45,000. The property suffered a loss in income during the first year, of which Tom’s share was $5,000. However, in years two through four income allocated from the account equaled a total of $9,000 ($3,000 per year). The reduction in debt at the end of year 4 from amortization of the loan is equal to $1,100. What is Tom’s basis in the partnership interest at the end of year 4?

(A) $67,900

(B) - $9,900

(C) $77,900

(D) $70,100

1. Refer to the question above. What is the balance of Tom’s capital account at the end of year 4?

(A) - $9,900

(B) $24,000

(C) $69,000

(D) $70,100

1. In a syndication, when cash is distributed from an investor’s partnership basis how is the new basis calculated?

(A) The cash distribution is added to the investor’s capital gain

(B) The cash distribution is subtracted from the investor’s capital gain

(C) The cash distribution is added to the investor’s partnership basis

(D) The cash distribution is subtracted from the investor’s partnership basis

1. Which of the following does NOT need to occur for a partnership allocation to have substantial economic effect?

(A) An adjustment must be made in the partner’s capital account

(B) Liquidation proceeds must be distributed in accordance with capital accounts

(C) Profits and losses must be allocated to different partners in proportion to their equity contribution

(D) Following the distribution of sale proceeds, partners must be liable to the partnership to restore any deficit in their capital account

CHAPTER 19: The Secondary Mortgage Market: Pass-Through Securities

TRUE/FALSE

1. In 2008, Fannie Mae was spun off in an initial public offering as a private company. True or False
2. The secondary mortgage market enables mortgage banking companies to sell existing mortgages and thereby replenish funds with which new loans can be originated. True or False
3. One difference between mortgage securities and corporate bonds is that mortgage securities tend to be “over-collateralized.” True or False
4. An optional delivery commitment, gives Fannie Mae the right (but not the obligation) to purchase mortgage loans from originators. True or False
5. Under the HUD Act of 1968, the assets, liabilities, and management of secondary market operations were transferred to a completely private corporation known as “Ginnie Mae” (GNMA). True or False
6. The Federal Home Loan Mortgage Corporation’s (FHLMC) primary purpose is to provide liquidity for conventional mortgage originators just as FNMA and GNMA did for originators of FHA - VA mortgages. True or False
7. When issuing mortgage-backed bonds, the issuer transfers ownership of the underlying mortgage to the investors/bondholders. True or False
8. When market interest rates exceed the coupon rate of a MBB, the price of the bond will be greater than its par value. True or False

**MULTIPLE CHOICE**

1. Which of the following is NOT a major type of mortgage-related securities?
   1. Mortgage-backed bonds (MBBs)
   2. Mortgage pass-through securities (MPTs)
   3. American depositary receipts (ADRs)
   4. Collateralized mortgage obligations (CMOs)
   5. All of the above are mortgage-related securities
2. A rising rate of market interest would have which of the following impacts on a mortgage pass-through security?   
   1. Increase the market value of the MPT
   2. Decrease the market value of the MPT
   3. Increase or decrease, depending on whether the MPT was issued at a premium or a discount
   4. The market rate of interest has no impact on the market value of a MPT
3. A falling rate of market interest would have which of the following impacts on a mortgage pass-through security?
   1. Increase prepayments on loans in the pool
   2. Decrease prepayments on loans in the pool
   3. Decrease the market value of the MPT
   4. Both A and C
   5. Both B and C
4. A 25-year maturity mortgage-backed bond is issued. The bond has a par value of $10,000 and promises to pay an 8 percent annual coupon. At issue, bond market investors require a 12 percent interest rate on the bond. What is the initial price on the bond?
   1. $588
   2. $6,835
   3. $6,863
   4. $14,270
5. Using the same information as the question above, assume that 20 years after the bond is issued, bond market investors require a 15 percent interest rate on the bond. What is the market price of the bond?
   1. $6,835
   2. $6,863
   3. $7,653
   4. $14,270
6. A 10-year maturity mortgage-backed bond is issued. The bond is a zero coupon bond that promises to pay $10,000 (par) after 10 years. At issue, bond market investors require a 15 percent interest rate on the bond. What is the initial price on the bond?
   1. $2,252
   2. $2,472
   3. $8,696
   4. $10,000
7. Which of the following developments assure mortgage investors they will receive interest and principal payments at little or no risk?

(A) The availability of hazard and title insurance

(B) The availability of mortgage default insurance and loan guarantees

(C) The development of standardized loan underwriting, processing, and servicing

(D) All of the above

1. The Government National Mortgage Association (GNMA) was organized to perform three principal functions. Which of the following is NOT a function of GNMA?

(A) Provide special assistance lending in support of federal programs

(B) Manage and liquidate mortgages previously acquired by FNMA

(C) Manage all secondary mortgage market operations

(D) Provide a guarantee for FHA/VA mortgage pools that would provide a guarantee for mortgage backed securities

1. Which of the following statements regarding mortgage-backed bonds is generally TRUE?

(A) The total value of the MBBs issued usually equals the value of the mortgages in the underlying pool

(B) Unlike corporate bonds, MBBs usually are issued with variable coupon rates of interest

(C) Overcollateralization of the mortgage pool assures investors that the income from mortgage will be sufficient to pay the interest on bonds and the principal upon maturity

(D) All of the above