NATIONWIDE MORTGAGE LICENSING SYSTEM AND REGISTRY (NMLS) 20 HOUR SAFE ACT PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. **If an adjustable-rate mortgage is described as a 5/2/6 loan, what does the first number indicate?**

   A. Initial interest rate adjustment

   B. Interest rate adjustment after the initial adjustment

   C. Lifetime interest rate adjustment

   D. Interest rate on the loan over its lifetime

2. **In the context of mortgage lending, what does it mean for a loan to go into default?**

   A. Loan payments are consistently made on time

   B. Borrower has navigated credit underwriting successfully

   C. Loan payments are not made as scheduled

   D. Loan has been refinanced successfully

3. **How long does a lender have to cure a tolerance violation?**

   A. Within 10 business days after settlement

   B. Within 1 business day after settlement

   C. Within 60 calendar days after settlement

   D. Within 30 calendar days after settlement

4. **Which federal act is associated with consumer protection in credit reporting?**

   A. Truth in Lending Act

   B. Fair Credit Reporting Act

   C. Equal Credit Opportunity Act

   D. Home Mortgage Disclosure Act

5. **Which federal act is designed to eliminate discrimination in lending?**

   A. Home Mortgage Disclosure Act

   B. Equal Credit Opportunity Act

   C. Community Reinvestment Act

   D. Truth in Lending Act

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6. Which act designates marital status as a protected class?

A. Equal Credit Opportunity Act

B. Fair Housing Act

C. Dodd-Frank Act

D. SAFE Act

7. What is FHA an acronym for in mortgage lending?

A. Federal Financing Administration

B. Federal Housing Administration

C. Fixed Housing Act

D. Federal Home Administration

8. What is an important feature of an owner's policy of title insurance?

A. It ensures mortgage approval

B. It protects against defects in title

C. It guarantees property value

D. It covers appraisal costs

9. An applicant is likely required to provide tax returns for the past two years if income is reported from?

A. Overtime

B. Bonuses

C. Commissions

D. Overtime and/or bonuses

10. Which type of loan generally has higher interest rates due to a lack of documentation requirements?

A. FHA loans

B. VA loans

C. Conventional loans

D. Alt-A loans

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Answers

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1. A
2. C
3. C
4. B
5. B
6. A
7. B
8. B
9. C
10. D

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Explanations

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1. If an adjustable-rate mortgage is described as a 5/2/6 loan, what does the first number indicate?

A. Initial interest rate adjustment

B. Interest rate adjustment after the initial adjustment

C. Lifetime interest rate adjustment

D. Interest rate on the loan over its lifetime

In the context of an adjustable-rate mortgage (ARM) described as a 5/2/6 loan, the first number represents the initial interest rate adjustment period. This means that the interest rate will remain fixed for the first five years of the loan term before it begins to adjust. During this initial fixed period, the borrower will benefit from predictable monthly payments, which can help with budgeting and financial planning. The subsequent numbers in the description provide additional information about how the interest rate will adjust after this initial period. Specifically, the second number indicates how much the interest rate can change at each subsequent adjustment after the initial fixed period, while the third number signifies the maximum interest rate adjustment over the life of the loan. This structured format helps borrowers understand the dynamics of their mortgage and expectations for payment fluctuations over time, beginning with a stable initial phase.

2. In the context of mortgage lending, what does it mean for a loan to go into default?

A. Loan payments are consistently made on time

B. Borrower has navigated credit underwriting successfully

C. Loan payments are not made as scheduled

D. Loan has been refinanced successfully

A loan going into default signifies that the borrower has failed to fulfill their repayment obligations as outlined in the loan agreement. This typically means that the borrower has not made the scheduled payments for a specific period, which can vary based on the lender's policies. When a borrower misses payments and fails to bring the loan current, it can ultimately lead to serious consequences, such as foreclosure proceedings, negative impacts on the borrower's credit score, and potential legal actions by the lender to recover the owed amount. In the context of mortgage lending, the other options do not represent default. Consistently making payments on time indicates good standing and compliance with the loan terms. Successfully navigating credit underwriting shows that a borrower has met the lender's criteria for loan approval, which is a positive aspect of obtaining a loan. Refinancing a loan reflects that the borrower has replaced the existing mortgage with a new one, often to obtain better terms, but does not equate to default.

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3. How long does a lender have to cure a tolerance violation?

A. Within 10 business days after settlement

B. Within 1 business day after settlement

C. Within 60 calendar days after settlement

D. Within 30 calendar days after settlement

A tolerance violation refers to the situation where the actual settlement costs exceed the tolerances set forth in the Closing Disclosure or Good Faith Estimate. Under the regulations established by the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA), lenders have a specific timeframe in which they must address any such violations to ensure compliance and protect consumers. The correct answer indicates that a lender has 60 calendar days after settlement to cure a tolerance violation. This allows sufficient time for both the lender and the borrower to reconcile any discrepancies related to closing costs, ensuring that the borrower is not penalized for charges that exceed the estimated amounts provided at the beginning of the lending process. Understanding this timeframe is crucial for lenders, as it helps them maintain compliance with federal regulations and fosters trust with borrowers by ensuring transparency and accountability regarding closing costs. Addressing violations within this period is fundamental for legal and regulatory adherence in the mortgage industry.

4. Which federal act is associated with consumer protection in credit reporting?

A. Truth in Lending Act

B. Fair Credit Reporting Act

C. Equal Credit Opportunity Act

D. Home Mortgage Disclosure Act

The Fair Credit Reporting Act (FCRA) is specifically designed to promote accuracy, fairness, and privacy in consumer credit reporting. It governs how consumer reporting agencies collect, disseminate, and use consumer information. Under this act, consumers have the right to access their credit reports and challenge any inaccuracies found within them. Additionally, the FCRA requires that credit reporting agencies provide consumers with a way to dispute incorrect information and mandates that they notify consumers when negative information is reported. This strong consumer protection framework addresses various aspects of credit reporting, ensuring that individuals are treated fairly in credit and lending conditions, thus reinforcing the importance of maintaining accurate credit histories. The focus on protecting consumers in this area distinguishes the FCRA from the other acts listed. For example, while the Truth in Lending Act aims to promote informed use of consumer credit by requiring disclosures about its terms, the Equal Credit Opportunity Act focuses on preventing discrimination in lending. The Home Mortgage Disclosure Act primarily deals with the collection and reporting of mortgage data. In contrast, the Fair Credit Reporting Act's primary goal is consumer protection regarding the accuracy and privacy of credit reporting, underscoring why it is the correct answer in this context.

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5. Which federal act is designed to eliminate discrimination in lending?

A. Home Mortgage Disclosure Act

B. Equal Credit Opportunity Act

C. Community Reinvestment Act

D. Truth in Lending Act

The Equal Credit Opportunity Act is designed to eliminate discrimination in lending by ensuring that all consumers have equal access to credit, regardless of their race, color, religion, national origin, sex, marital status, or age. This act mandates that lenders evaluate creditworthiness based on the applicant's ability to repay the loan rather than on personal characteristics that do not indicate credit risk. The key purpose of this legislation is to promote fair lending practices and prevent discriminatory lending practices. By establishing guidelines that prohibit bias within the credit evaluation process, the Equal Credit Opportunity Act plays a crucial role in fostering a more equitable financial system where all individuals can obtain credit based on merit rather than discriminatory factors. The other options, while related to aspects of lending and consumer protection, serve different purposes and do not specifically focus on eliminating discrimination in credit decisions. The Home Mortgage Disclosure Act provides information about lending practices in certain communities, the Community Reinvestment Act encourages financial institutions to help meet the credit needs of the communities they serve, and the Truth in Lending Act is aimed at promoting informed use of credit by requiring disclosures about terms and costs.

6. Which act designates marital status as a protected class?

A. Equal Credit Opportunity Act

B. Fair Housing Act

C. Dodd-Frank Act

D. SAFE Act

The Equal Credit Opportunity Act (ECOA) designates marital status as a protected class by prohibiting discrimination in any aspect of credit transactions based on specific characteristics, which include marital status. This means that lenders cannot deny credit, alter terms, or impose conditions based on whether an applicant is single, married, divorced, or widowed. This protection aims to ensure that all individuals have equal access to credit and are evaluated based on their creditworthiness rather than personal circumstances unrelated to financial responsibility. In contrast, the Fair Housing Act primarily focuses on preventing discrimination in housing and real estate transactions based on categories like race, color, religion, sex, disability, familial status, and national origin, but does not specifically address marital status as a protected class. Similarly, the Dodd-Frank Act primarily addresses broader financial reforms and regulations following the 2008 financial crisis, without specifically designating marital status as a protected category. The SAFE Act relates to the licensing and registration of mortgage loan originators and does not encompass anti-discrimination provisions like those found in the ECOA.

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7. What is FHA an acronym for in mortgage lending?

A. Federal Financing Administration

B. Federal Housing Administration

C. Fixed Housing Act

D. Federal Home Administration

The acronym FHA stands for Federal Housing Administration. This agency was established in 1934 as part of the U.S. Department of Housing and Urban Development (HUD) and plays a crucial role in the housing market by facilitating home financing, particularly for first-time homebuyers and those with lower credit scores. The FHA provides mortgage insurance on loans made by approved lenders to borrowers, which helps reduce the risk for lenders and makes housing more accessible to a broader range of consumers. The other options do not accurately represent the agency's full name or accurately reflect its function within the mortgage lending framework. Understanding the role of the Federal Housing Administration is vital for professionals in the mortgage industry, as FHA loans are a common avenue for financing homes.

8. What is an important feature of an owner's policy of title insurance?

A. It ensures mortgage approval

B. It protects against defects in title

C. It guarantees property value

D. It covers appraisal costs

An owner's policy of title insurance is primarily designed to protect the policyholder against defects in the title of the property they have purchased. This type of policy acts as a safeguard against any legal issues that may arise from claims against the title, such as undisclosed liens, ownership disputes, or errors in public records. Essentially, if a challenge to the ownership of the property is made that goes against the homeowner's title, the insurance will defend the homeowner's rights and cover any legal costs or losses incurred as a result. The feature of protecting against defects in the title is crucial for homeowners as it provides peace of mind and financial security after the purchase. By ensuring the validity of the title, the policy helps to confirm the homeowner's legal right to the property, enabling them to fully enjoy and utilize their investment without fear of potential claims from third parties. Other options, while pertinent to the home buying process, do not accurately reflect the primary benefit of an owner's policy. For instance, mortgage approval is dependent on the lender's assessment of various financial factors and does not directly relate to title insurance. Similarly, title insurance does not guarantee property value or cover appraisal costs; its focus is strictly on title integrity and resolving any title-related disputes that could affect ownership.

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9. An applicant is likely required to provide tax returns for the past two years if income is reported from?

A. Overtime

B. Bonuses

C. Commissions

D. Overtime and/or bonuses

When an applicant reports income from commissions, it is common practice for lenders to require tax returns for the past two years. This is because commission-based income can vary significantly from month to month and year to year, depending on sales performance and market fluctuations. By reviewing two years of tax returns, underwriters can assess the stability and average of the applicant's commission income, providing a more reliable basis for evaluating the applicant's overall financial situation and ability to repay a mortgage. While other types of income such as overtime and bonuses may also require documentation, commissions are particularly variable and require more scrutiny. Therefore, verifying this income through tax returns ensures that lenders have a clear understanding of the applicant's earning patterns, which is crucial for loan approval. This practice helps to mitigate risk for lenders while ensuring that borrowers are not over-leveraged based on potentially inconsistent income streams.

10. Which type of loan generally has higher interest rates due to a lack of documentation requirements?

A. FHA loans

B. VA loans

C. Conventional loans

D. Alt-A loans

Alt-A loans generally have higher interest rates primarily due to their reduced documentation requirements. These loans cater to borrowers who may not meet the traditional lending criteria, often allowing for less verification of income, assets, or employment history. Because lenders perceive a higher risk in loaning to these borrowers, they typically charge a higher interest rate to compensate for that risk. This risk arises because lower documentation can mean that the lender has less assurance regarding the borrower's ability to repay the loan. As a result, Alt-A loans serve a specific market segment, but the lack of stringent documentation requirements makes them inherently riskier for lenders, thereby justifying the higher interest rates associated with them.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!

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