NMLS LAWS AND REGULATIONS PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Table of Contents

Copyright 1

Table of Contents 2

Introduction 3

How to Use This Guide 4

Questions 5

Answers 8

Explanations 10

Next Steps 15

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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. What must a lender file once the borrower pays off a loan?

A. A new mortgage deed

B. A Satisfaction of Mortgage in the county courthouse

C. A mortgage discharge form

D. A lien release certificate

2. Which statement best defines Pre-Approval?

A. A formal process based on documented information

B. An informal discussion with a lender

C. A commitment to lend for a fixed rate

D. An agreement to lock in rates

3. Which type of income cannot be used or is a reason to decline a mortgage?

A. Annuity

B. Part time income last 24 months

C. Social security and/or public income source

D. Intermittent or seasonal income

4. Which of the following is a characteristic of a balloon mortgage?

A. It fully amortizes over the term

B. It does not fully amortize and ends with a large balloon payment

C. It requires constant monthly payments for full amortization

D. It cannot have a term longer than 15 years

5. Which item is not one of the six data points that trigger a Loan Estimate?

A. Ethnicity

B. Name

C. Address

D. SSN

6. When was the SAFE Act created?

A. 1995

B. 2008

C. 2010

D. 2012

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7. ECOA stands for which act?

A. Equal Credit Opportunity Act

B. Equal Consumer Opportunities Act

C. Electronic Credit Operation Act

D. Equal Cash Order Act

8. When calculating TLTV, what assumption is made about the HELOC?

A. It is fully unused

B. It is fully drawn (maxed out)

C. It is zero balance

D. It is a fixed amount limited by the home value

9. Bi-weekly pay of $1,200 results in what gross monthly income?

A. 2600

B. 2400

C. 2800

D. 3000

10. Where on the mortgage application does an MLO collect the Government Monitoring Information required by HMDA?

A. Section 10 (X)

B. Section 9 (IX)

C. Section 11 (XI)

D. Section 12 (XII)

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Answers

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

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Explanations

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1. What must a lender file once the borrower pays off a loan?

A. A new mortgage deed

B. A Satisfaction of Mortgage in the county courthouse

C. A mortgage discharge form

D. A lien release certificate

When a loan is paid in full, the lien on the property must be officially released so the borrower has clear title. The lender does this by preparing a Satisfaction of Mortgage (also called a Release of Mortgage) and recording it with the county's recording office (often the county recorder or registrar of deeds, sometimes described as the county courthouse). Recording the document provides public notice that the loan is satisfied and removes the lien from the property records. Without this filing, the mortgage could still appear as a lien even though the debt is paid. Other terms like a mortgage discharge form or a lien release certificate may be used in some places, but the formal release is the Satisfaction of Mortgage filed in the county records.

2. Which statement best defines Pre-Approval?

A. A formal process based on documented information

B. An informal discussion with a lender

C. A commitment to lend for a fixed rate

D. An agreement to lock in rates

Pre-approval means the lender carefully reviews and verifies your financial information—income, assets, debts, and credit—using documented evidence. Based on that verification, they provide a conditional commitment up to a specific loan amount, giving you a concrete sense of how much you might borrow while still subject to underwriting and the property's appraisal. It's not a guaranteed loan; final approval depends on underwriting and meeting all conditions. This distinguishes pre-approval from a casual, informational discussion (pre-qualification) that isn't backed by verification, and from a rate lock or a firm lending commitment, which are separate concepts.

3. Which type of income cannot be used or is a reason to decline a mortgage?

A. Annuity

B. Part time income last 24 months

C. Social security and/or public income source

D. Intermittent or seasonal income

Income that lenders can rely on must be stable, ongoing, and likely to continue for the life of the loan. Intermittent or seasonal earnings fail to meet that standard because they rise and fall with the season and can disappear when the busy period ends. Without a documented pattern that shows these fluctuations will continue year after year, there's a real risk the borrower won't have enough income to cover the mortgage in the future. That's why seasonal or intermittent income is not counted as qualifying income and can be a reason to decline or to require the borrower to show other stable income or reserves. Other income types tend to be considered more reliable: annuity payments can be counted if they are guaranteed and documented, since they provide a predictable benefit over time; part-time income can be used if there's a stable, documented history (often 24 months) that it will continue; Social Security or other public income is generally treated as stable, non-employment income and can be included in qualification.

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4. Which of the following is a characteristic of a balloon mortgage?

A. It fully amortizes over the term

B. It does not fully amortize and ends with a large balloon payment

C. It requires constant monthly payments for full amortization

D. It cannot have a term longer than 15 years

A balloon mortgage is defined by not fully paying off the loan by the end of its term. The payments are set as if the loan will be repaid over a longer period, so during the term you're mainly paying interest or small amounts of principal. When the term ends, a large remaining balance—the balloon payment—comes due unless you refinance or pay it off in another way. This setup lowers ongoing payments compared to a fully amortizing loan, but creates a big lump-sum obligation at maturity. This is why the statement describing a loan that does not fully amortize and ends with a large balloon payment is the correct characteristic. The other descriptions describe loans that are fully amortizing, with payments that completely pay off the loan over the term, or impose a constraint (like a 15-year maximum) that doesn't define balloon loans.

5. Which item is not one of the six data points that trigger a Loan Estimate?

A. Ethnicity

B. Name

C. Address

D. SSN

The thing being tested is which pieces of information actually trigger the delivery of the Loan Estimate under TRID. To issue an LE within three business days of receiving a complete application, a lender uses six key data points: the borrower's name, income, Social Security number, property address, the estimated value of the property, and the loan amount. These items are what the lender needs to determine the loan terms, pricing, and whether a reliable credit decision can be made in time. Ethnicity is not one of those triggers. Race/ethnicity information is collected for fair-lending and HMDA reporting purposes, but it does not affect the LE's timing or content.

6. When was the SAFE Act created?

A. 1995

B. 2008

C. 2010

D. 2012

The SAFE Act was created in 2008. It was enacted as part of the Housing and Economic Recovery Act of 2008 and signed into law in July 2008. The act established a nationwide licensing framework for mortgage loan originators and created the Nationwide Mortgage Licensing System and Registry (NMLS) to standardize licensing, registration, and enforcement across states, helping protect consumers and reduce fraud. The other years don't fit because the act and the NMLS didn't exist before 2008 and were not created afterward.

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7. ECOA stands for which act?

A. Equal Credit Opportunity Act

B. Equal Consumer Opportunities Act

C. Electronic Credit Operation Act

D. Equal Cash Order Act

The main concept here is fair lending in credit transactions. ECOA is the Equal Credit Opportunity Act, a federal law that makes it unlawful to discriminate against applicants in any aspect of a credit transaction based on protected characteristics. This means lenders must evaluate creditworthiness and not rely on factors like race, color, religion, national origin, sex, marital status, age, receipt of public assistance, or the applicant's exercise of rights under the Consumer Credit Protection Act. The act covers a wide range of credit, including mortgages, auto loans, credit cards, and personal loans, and is implemented as Regulation B with enforcement by agencies such as the CFPB and others. The other suggested names don't match the official statute, so they're not correct expansions of ECOA.

8. When calculating TLTV, what assumption is made about the HELOC?

A. It is fully unused

B. It is fully drawn (maxed out)

C. It is zero balance

D. It is a fixed amount limited by the home value

TLTV measures the total liens against a property relative to its value by adding together the first mortgage and any subordinate loans, like a HELOC, and dividing by the property's appraised value. When calculating TLTV, lenders assume the HELOC is fully drawn to its maximum credit limit. This conservative assumption creates the highest possible TLTV figure, ensuring the borrower's potential debt under worst case usage is still affordable and that there remains sufficient equity. If the HELOC were assumed to be unused or limited, the TLTV would be lower, making the assessment less protective.

9. Bi-weekly pay of $1,200 results in what gross monthly income?

A. 2600

B. 2400

C. 2800

D. 3000

Converting bi-weekly earnings to monthly gross income involves annualizing the pay and then dividing by 12. With a bi-weekly pay of 1,200, you receive 26 pay periods in a year (1,200 × 26 = 31,200). Dividing that annual amount by 12 gives 31,200 ÷ 12 = 2,600 per month. The result is 2,600 because monthly income is derived from the annual total, not simply twice per month. The other figures would stem from assuming two pay periods every month, which isn't how bi-weekly pay calendars work.

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10. Where on the mortgage application does an MLO collect the Government Monitoring Information required by HMDA?

A. Section 10 (X)

B. Section 9 (IX)

C. Section 11 (XI)

D. Section 12 (XII)

Government Monitoring Information for HMDA is collected in the section of the 1003 that handles demographic data. This is Section 10. It asks the borrower to provide ethnicity, race, and sex information. This data is collected to support HMDA reporting and fair-lending monitoring, and it does not affect the loan decision. Other sections of the form cover loan terms, income, assets, and employment, which are used for underwriting, not for HMDA demographic monitoring.

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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:

https://nmlslawsregulations.examzify.com

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

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