

Accredited Mortgage Professional (AMP) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What is a credit freeze?**
 - A. A method to increase credit scores**
 - B. A restriction on credit report access**
 - C. A promotional offer by credit companies**
 - D. An automatic payment plan**
- 2. What term describes when a lender agrees to accept less than the current principal balance from a distressed homeowner?**
 - A. A foreclosure**
 - B. A short sale**
 - C. A loan modification**
 - D. An eviction**
- 3. What is "loan stacking"?**
 - A. A method of consolidating multiple loans into one**
 - B. A practice of taking multiple loans on the same property**
 - C. The process of refinancing an existing loan**
 - D. An approach to reduce borrowing costs**
- 4. Which of the following describes a mortgage that requires principal and interest payments at regular intervals until the debt is satisfied?**
 - A. Balloon Mortgage**
 - B. Adjustable Rate Mortgage**
 - C. Amortized Mortgage**
 - D. Negative Amortization Mortgage**
- 5. Which of the following types of loans is typically used for purchasing homes?**
 - A. Personal loans**
 - B. Commercial loans**
 - C. Mortgage loans**
 - D. Student loans**

- 6. What is the main difference between a credit report and a credit score?**
- A. A credit report is private; a credit score is public**
 - B. A credit report details history; a credit score quantifies it**
 - C. A credit report is used for loans; a credit score is used for employment**
 - D. A credit report shows debts; a credit score reflects assets**
- 7. Which advantage is associated with becoming an Accredited Mortgage Professional (AMP)?**
- A. Reducing loan closing times**
 - B. Enhancing credibility and demonstrating expertise in the mortgage industry**
 - C. Lowering interest rates for clients**
 - D. Directly increasing loan amounts**
- 8. What type of mortgage allows a retired couple to negotiate a loan against the equity in their property and receive monthly checks for life?**
- A. Fixed-rate mortgage**
 - B. Reverse annuity mortgage**
 - C. Home equity loan**
 - D. Adjustable-rate mortgage**
- 9. What does a good faith deposit signify in a real estate transaction?**
- A. A payment made to secure a mortgage application**
 - B. A deposit to show the buyer's commitment to purchasing a property**
 - C. A fee paid to real estate agents for their services**
 - D. A penalty for backing out of a property deal**
- 10. What is the impact of a credit score on mortgage approval?**
- A. A higher credit score generally increases the chances of approval and can lead to lower interest rates.**
 - B. A lower credit score has no effect on mortgage approval rates.**
 - C. Credit scores do not influence mortgage interest rates.**
 - D. A credit score only affects loan types available to the borrower.**

Answers

SAMPLE

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

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Explanations

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1. What is a credit freeze?

- A. A method to increase credit scores
- B. A restriction on credit report access**
- C. A promotional offer by credit companies
- D. An automatic payment plan

A credit freeze is accurately described as a restriction on credit report access. When an individual places a credit freeze, they are ensuring that their credit report cannot be accessed by lenders and other entities without their explicit permission. This is an important tool for protecting against identity theft, as it prevents potential creditors from viewing the individual's credit history and issuing new credit accounts in their name without authorization. In contrast, the other options do not define a credit freeze. For instance, increasing credit scores typically involves responsible credit management practices like timely payments and reducing overall debt, not restricting access to credit reports. Additionally, a promotional offer by credit companies would relate to marketing strategies rather than a safeguard against fraud. Lastly, an automatic payment plan is a financial arrangement to automate bill payments, which does not relate to credit report security. Therefore, identifying a credit freeze as a restriction on credit report access captures its essence perfectly.

2. What term describes when a lender agrees to accept less than the current principal balance from a distressed homeowner?

- A. A foreclosure
- B. A short sale**
- C. A loan modification
- D. An eviction

The term that best describes when a lender agrees to accept less than the current principal balance from a distressed homeowner is a short sale. In the context of real estate, a short sale occurs when the homeowner sells their property for less than the amount owed on the mortgage, with the lender's consent to accept the reduced payoff. This process usually happens when the homeowner is experiencing financial hardship and unable to continue making mortgage payments. In a short sale situation, the lender recognizes that foreclosure may be a more costly and time-consuming option. By agreeing to a short sale, the lender can minimize losses by allowing the homeowner to sell the property at its current market value, even if that amount is lower than the loan balance. The lender typically evaluates the homeowner's financial situation to ensure that accepting a lesser amount is the most viable solution. Other terms like foreclosure, loan modification, and eviction all refer to different processes related to distressed homeowners. Foreclosure is the legal process by which a lender seeks to recover the balance of a loan from a borrower who has defaulted, typically resulting in taking possession of the property. A loan modification involves changing the terms of the existing mortgage to make payments more manageable for the borrower, rather than forcing a sale. Eviction refers to the legal

3. What is "loan stacking"?

- A. A method of consolidating multiple loans into one
- B. A practice of taking multiple loans on the same property**
- C. The process of refinancing an existing loan
- D. An approach to reduce borrowing costs

Loan stacking refers to the practice of taking multiple loans secured by the same property. This strategy is often employed by borrowers who seek to leverage their existing equity or to access additional funds without going through a full refinance process. Loan stacking can occur when a borrower acquires a primary mortgage and subsequently takes out additional loans, such as home equity lines of credit (HELOCs) or second mortgages, while still maintaining the original mortgage. This practice can be advantageous for homeowners looking to finance home improvements, cover large expenses, or manage cash flow, as it allows them to access significant funds. However, it can also increase the total debt burden and associated risks if not managed properly, as the borrower becomes responsible for multiple repayments across different loans. The other choices refer to different financial actions. Consolidating multiple loans involves combining them into a single loan to simplify payments and often to secure a lower interest rate. Refinancing an existing loan is focused on replacing an old loan with a new one, typically to achieve better terms. Reducing borrowing costs is a general strategy that could involve various techniques, but it does not specifically capture the essence of taking multiple loans on the same property, which is the fundamental aspect of loan stacking.

4. Which of the following describes a mortgage that requires principal and interest payments at regular intervals until the debt is satisfied?

- A. Balloon Mortgage
- B. Adjustable Rate Mortgage
- C. Amortized Mortgage**
- D. Negative Amortization Mortgage

An amortized mortgage is specifically designed to ensure that both principal and interest payments are made at regular intervals, systematically reducing the loan balance over time until the debt is fully paid off by the end of the loan term. This type of mortgage offers a clear repayment structure where the borrower makes equal monthly payments, and each payment contributes to decreasing the principal amount while covering interest costs as well. In the context of the options provided, while a balloon mortgage involves regular payments that may not cover the full principal amount, leading to a large final payout, the adjustable rate mortgage adjusts interest rates periodically but maintains a repayment schedule that may not fulfill the requirement for consistent principal repayment. Negative amortization mortgages allow the balance to grow rather than shrink because payments do not adequately cover the interest, resulting in an increasing loan balance. Therefore, the most accurate description of a mortgage that requires principal and interest payments consistently over time is the amortized mortgage.

5. Which of the following types of loans is typically used for purchasing homes?

- A. Personal loans**
- B. Commercial loans**
- C. Mortgage loans**
- D. Student loans**

Mortgage loans are specifically designed for the purpose of purchasing homes. They provide the needed funding to buyers who wish to finance a residential property over a set period, usually with a fixed or adjustable interest rate. A mortgage loan not only allows the buyer to acquire the property but also secures the loan with the property itself, meaning that if the borrower defaults, the lender has the right to take possession of the home through foreclosure. In contrast, personal loans are generally unsecured and used for various personal expenses, like consolidating debt or financing a large purchase but are not specific to real estate. Commercial loans are meant for financing business-related property and ventures and would not be suitable for individual home purchases. Student loans, on the other hand, are specifically designed to cover education expenses and have no relation to real estate financing. Thus, mortgage loans are the appropriate choice when referring to loans utilized for home purchases.

6. What is the main difference between a credit report and a credit score?

- A. A credit report is private; a credit score is public**
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The distinction between a credit report and a credit score is central to understanding how credit works in lending processes. A credit report provides a comprehensive summary of an individual's credit history, including detailed information about credit accounts, payment history, outstanding debts, and public records related to credit. It serves as a factual document that lenders review to assess the creditworthiness and financial behavior of a borrower over time. On the other hand, a credit score is a numerical representation derived from the data contained within the credit report. It quantifies an individual's creditworthiness by distilling the detailed information into a single score that summarizes the likelihood of the individual repaying their debts. The score is typically calculated based on factors such as payment history, credit utilization, and the length of credit history. Understanding this difference is critical, as the credit report offers the background and specifics needed to make informed lending decisions, while the credit score provides a quick, standardized way to assess risk at a glance. This relationship is why the correct choice emphasizes that a credit report details history, while a credit score quantifies it.

7. Which advantage is associated with becoming an Accredited Mortgage Professional (AMP)?

- A. Reducing loan closing times
- B. Enhancing credibility and demonstrating expertise in the mortgage industry**
- C. Lowering interest rates for clients
- D. Directly increasing loan amounts

Becoming an Accredited Mortgage Professional (AMP) significantly enhances credibility and demonstrates expertise in the mortgage industry. This designation signals to clients and colleagues that the individual has met specific educational, ethical, and professional standards, which can lead to greater trust and confidence. As a result, clients are more likely to choose a mortgage professional with this accreditation over others without it, as it reflects a commitment to professionalism and accountability. This credibility can also facilitate better relationships with lenders, enabling the professional to access resources and products that may not be available to those without the AMP designation. In a competitive market, having the AMP credential can differentiate a mortgage professional and potentially lead to increased business opportunities. While other options may refer to desirable aspects of mortgage transactions, they are not direct advantages of obtaining the AMP designation. Reducing closing times and lowering interest rates are outcomes influenced by various factors in the mortgage process, not solely by professional accreditation. Similarly, increasing loan amounts is also contingent on borrowers' qualifications and lender policies rather than the professional's accreditation status. Therefore, option B stands out as the main advantage of obtaining the AMP credential.

8. What type of mortgage allows a retired couple to negotiate a loan against the equity in their property and receive monthly checks for life?

- A. Fixed-rate mortgage
- B. Reverse annuity mortgage**
- C. Home equity loan
- D. Adjustable-rate mortgage

The type of mortgage that allows a retired couple to negotiate a loan against the equity in their property and receive monthly checks for life is a reverse annuity mortgage. This financial product is specifically designed for homeowners, typically seniors, who wish to access the equity in their home to supplement their income during retirement. With a reverse annuity mortgage, the lender makes payments to the borrower, using the home's equity as collateral, rather than the borrower making payments to the lender. This arrangement can take the form of monthly checks or a lump sum, which can provide the couple with financial support throughout their retirement years. Importantly, the loan does not need to be repaid until the homeowners sell the home, move out, or pass away, allowing them to live in the home without the burden of monthly mortgage payments. In contrast, other mortgage types listed do not provide the same benefits for retirees. A fixed-rate mortgage requires regular monthly payments from the borrower, which may not be suitable for those on a fixed income. A home equity loan also involves taking out a loan against the home's equity, but it typically requires repayment with interest and does not offer the same monthly cash flow benefits. An adjustable-rate mortgage comes with fluctuating interest rates and monthly payments, making

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- A. A payment made to secure a mortgage application**
- B. A deposit to show the buyer's commitment to purchasing a property**
- C. A fee paid to real estate agents for their services**
- D. A penalty for backing out of a property deal**

A good faith deposit, often referred to as an earnest money deposit, is a sum of money that a buyer provides to demonstrate their serious intent to purchase a property. This deposit acts as a commitment to the seller that the buyer will follow through with the transaction under the agreed-upon terms. Essentially, it assures the seller that the buyer is genuine in their offer, thus helping to secure the property while the details of the sale are being finalized. This practice is common in real estate transactions, as it indicates trust and good faith between the buyer and the seller. Once the sale closes, the good faith deposit is typically applied towards the down payment or closing costs. If for any reason the transaction does not proceed, the handling of the deposit can vary based on the reason for the cancellation and the agreements in place, which may allow the buyer to recover their deposit under certain circumstances.

10. What is the impact of a credit score on mortgage approval?

- A. A higher credit score generally increases the chances of approval and can lead to lower interest rates.**
- B. A lower credit score has no effect on mortgage approval rates.**
- C. Credit scores do not influence mortgage interest rates.**
- D. A credit score only affects loan types available to the borrower.**

A higher credit score generally serves as a strong indicator of a borrower's creditworthiness, which significantly impacts the likelihood of mortgage approval. Lenders use credit scores to assess the risk associated with lending money. When a borrower has a higher credit score, it suggests a history of responsible credit management, including timely payments and low credit utilization. As a result, lenders are more inclined to approve the mortgage application because they perceive a lower risk of default. Moreover, approval is just one aspect; a higher credit score can also lead to more favorable loan terms, including lower interest rates. This reduction in the interest rate can save borrowers substantial amounts over the life of the loan, making home ownership more affordable and accessible. In contrast, the other options inaccurately represent the relationship between credit scores and mortgage approval. A lower credit score can lead to reduced chances of approval or higher interest rates, making option B incorrect. Similarly, options C and D overlook the fundamental role that credit scores play in both approval rates and the terms of the loans offered to borrowers. Overall, a strong credit score is a key determinant in the mortgage lending process.