

# Federal Mortgage-Related Laws Practice Test (Sample)

## Study Guide



**Everything you need from our exam experts!**

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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.

# 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!**

## Questions

- 1. What information must be included in the Loan Estimate given to borrowers?**
  - A. Only the interest rate of the loan**
  - B. Estimated closing costs and loan terms**
  - C. Homeowner's insurance deductions**
  - D. Property taxes**
- 2. How often must servicers notify borrowers of their PMI status under the Homeowners Protection Act?**
  - A. Every month**
  - B. Annually**
  - C. Every six months**
  - D. Only at the time of loan origination**
- 3. How must settlement fees and charges related to a loan transaction be recorded on the HUD-1 Settlement Statement?**
  - A. Actual percentages of the loan amount**
  - B. Estimated percentages of the loan amount**
  - C. Actual dollar amounts**
  - D. Estimated dollar amounts**
- 4. Regulations adopted under the USA PATRIOT Act apply to which group?**
  - A. All loan originators, regardless of license status**
  - B. Residential mortgage loan originators**
  - C. Only depository institutions**
  - D. Only commercial lenders**
- 5. What federal law requires lenders to disclose the cost of credit to consumers?**
  - A. The Fair Housing Act**
  - B. The Equal Credit Opportunity Act**
  - C. The Truth in Lending Act**
  - D. The Home Mortgage Disclosure Act**

- 6. Which of the following is NOT a requirement when applying for a loan over the phone?**
- A. The application must be completed within 5 minutes**
  - B. A confirmation of receipt must be sent within three days**
  - C. Borrowers must receive a Good Faith Estimate within three days**
  - D. A valid license must be verified for the lender**
- 7. What is the maximum late payment fee a lender can charge under TILA?**
- A. 10% of the overdue payment**
  - B. 5% of the overdue payment**
  - C. No late payment fees are allowed**
  - D. Only a flat fee regardless of amount**
- 8. Before selling high-cost mortgages, what must MaxMortgage provide to purchasers?**
- A. A notice that the loans are subject to HOEPA**
  - B. A guarantee that there will be no HOEPA violations**
  - C. All pertinent borrower documentation**
  - D. A summary of the terms of the loans**
- 9. How is money laundering best defined?**
- A. Using funds illegally obtained from a fraudulent mortgage transaction**
  - B. Filtering money through a series of transactions to hide its illegal origin**
  - C. Purchasing legal financial products with illegally procured funds**
  - D. Transferring money into offshore accounts to avoid taxes**
- 10. Which action does TILA require regarding adjustable-rate mortgages?**
- A. To provide a standardized interest rate model**
  - B. To prohibit adjustable rates without borrower consent**
  - C. To disclose how rates will be adjusted in variable-rate loans**
  - D. To guarantee fixed rates for the first five years**



## **Answers**

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

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## **Explanations**

**1. What information must be included in the Loan Estimate given to borrowers?**

- A. Only the interest rate of the loan**
- B. Estimated closing costs and loan terms**
- C. Homeowner's insurance deductions**
- D. Property taxes**

The Loan Estimate is a critical document provided to borrowers that outlines essential details regarding the mortgage loan they are considering. The correct choice focuses on the requirement for this document to include estimated closing costs and loan terms. This encompasses not only the interest rate but also other costs associated with closing on the loan, such as origination charges, third-party services, and prepayments. Additionally, the Loan Estimate must outline the specifics of the loan terms, including the loan amount, the interest rate, the monthly payment, and the length of time the borrower will need to pay back the loan. The inclusion of estimated closing costs and loan terms is fundamental because it allows borrowers to understand the overall financial obligations they will assume and facilitates better comparisons between different loan offers. By providing this comprehensive view, the Loan Estimate helps borrowers make informed decisions about their mortgage options. Other options, while potentially relevant to the overall cost of homeownership, are not explicitly required to be included in the Loan Estimate. Homeowner's insurance deductions and property taxes are secondary considerations that may impact overall monthly payments but are not part of the core information the Loan Estimate needs to convey to ensure compliance with mortgage disclosure laws.

**2. How often must servicers notify borrowers of their PMI status under the Homeowners Protection Act?**

- A. Every month**
- B. Annually**
- C. Every six months**
- D. Only at the time of loan origination**

Under the Homeowners Protection Act, servicers are required to notify borrowers of their Private Mortgage Insurance (PMI) status at least annually. This requirement is in place to ensure that borrowers are aware of their PMI obligations and the potential for its cancellation once certain conditions are met, such as reaching a specific loan-to-value ratio. The annual notification helps borrowers track their mortgage balance and understand when they may no longer need to pay for PMI, which can result in significant savings. Being informed annually allows borrowers to manage their finances effectively and engage with their servicer regarding PMI cancellation when appropriate.

**3. How must settlement fees and charges related to a loan transaction be recorded on the HUD-1 Settlement Statement?**

- A. Actual percentages of the loan amount**
- B. Estimated percentages of the loan amount**
- C. Actual dollar amounts**
- D. Estimated dollar amounts**

Settlement fees and charges related to a loan transaction must be recorded on the HUD-1 Settlement Statement as actual dollar amounts. This requirement ensures transparency for all parties involved in the transaction, allowing borrowers to clearly understand how much they are paying in settlement costs. The HUD-1 form provides a detailed breakdown of all fees associated with the closing of the loan, which includes costs for services such as title insurance, appraisal fees, and other closing costs. Using actual dollar amounts rather than estimates is crucial because it helps prevent misunderstandings or disputes regarding what exactly the borrower is responsible for financially. It aligns with the regulations established to protect consumers in mortgage transactions, ensuring that they are fully informed of their financial obligations. This practice fosters trust and accountability in the lending process.

**4. Regulations adopted under the USA PATRIOT Act apply to which group?**

- A. All loan originators, regardless of license status**
- B. Residential mortgage loan originators**
- C. Only depository institutions**
- D. Only commercial lenders**

The regulations adopted under the USA PATRIOT Act specifically apply to residential mortgage loan originators because these regulations are designed to combat money laundering and the financing of terrorism. This means that any entity or individual involved in the origination of residential mortgages must adhere to the provisions set out by the law, including conducting appropriate customer due diligence and reporting suspicious activities. Residential mortgage loan originators are directly involved in the lending process and thus have access to personal and financial information from borrowers. To ensure the integrity of the financial system and to prevent illegal activities, the act mandates that these originators fulfill specific compliance requirements, including maintaining certain records and filing reports related to suspicious transactions. Other groups mentioned, such as all loan originators or only depository institutions, would be governed by broader aspects of financial regulations, but the specific stipulations under the USA PATRIOT Act targeting actions against money laundering focus directly on those involved in residential mortgage lending. Commercial lenders, while also subject to various financial regulations, are not the primary focus of the provisions set forth under this act regarding residential transactions. Thus, the correct choice reflects the targeted nature of the regulations toward residential loan originators explicitly.

**5. What federal law requires lenders to disclose the cost of credit to consumers?**

- A. The Fair Housing Act**
- B. The Equal Credit Opportunity Act**
- C. The Truth in Lending Act**
- D. The Home Mortgage Disclosure Act**

The Truth in Lending Act is the federal law that mandates lenders to disclose the cost of credit to consumers. This legislation was enacted to promote the informed use of credit by requiring clear and conspicuous disclosure of key terms associated with borrowing. It requires lenders to provide detailed information regarding interest rates, fees, and the total cost of credit, allowing consumers to make more informed decisions about borrowing. This law aims to prevent misunderstandings about the terms of credit and enables consumers to compare the costs of credit between different lenders more easily. This transparency is crucial in protecting consumers from deceptive lending practices and ensuring fair access to credit. In contrast, the Fair Housing Act is focused on preventing discrimination in housing; the Equal Credit Opportunity Act prohibits discrimination in lending but does not specifically require cost disclosures; and the Home Mortgage Disclosure Act aims to provide the public with information about mortgage lending patterns but does not directly mandate cost disclosures.

**6. Which of the following is NOT a requirement when applying for a loan over the phone?**

- A. The application must be completed within 5 minutes**
- B. A confirmation of receipt must be sent within three days**
- C. Borrowers must receive a Good Faith Estimate within three days**
- D. A valid license must be verified for the lender**

When applying for a loan over the phone, there are specific regulatory requirements that lenders must adhere to, aimed at ensuring transparency and protection for the borrower. The requirement stating that a confirmation of receipt of the application must be sent within three days is mandated by federal law, ensuring that the borrower is acknowledged and informed about their application status. Additionally, borrowers must receive a Good Faith Estimate within three days of their application, which is a critical document that outlines the expected costs associated with the loan. This requirement helps borrowers understand the terms of their mortgage and any associated fees before moving forward. The verification of the lender's valid license is also essential, as it ensures that the lender is authorized to operate and lend in the specific jurisdiction, contributing to fair lending practices. However, there is no federal requirement dictating that the application must be completed within a specific timeframe, such as five minutes. This means that while it may speed up the process for efficiency, there is no obligation to finalize the application within that time frame, making it the correct response for this question.

**7. What is the maximum late payment fee a lender can charge under TILA?**

- A. 10% of the overdue payment**
- B. 5% of the overdue payment**
- C. No late payment fees are allowed**
- D. Only a flat fee regardless of amount**

Under the Truth in Lending Act (TILA), the maximum late payment fee a lender can charge is 5% of the overdue payment. This provision is intended to regulate how much lenders can impose on borrowers who fail to pay on time, ensuring that late fees remain reasonable and proportionate to the payment that was missed. This limitation promotes transparency in lending practices, allowing borrowers to be informed of their potential obligations should they miss a payment. The rationale behind capping the late fee at 5% is to prevent excessive charges that could exacerbate the financial difficulties of borrowers who are already struggling to make their payments. By setting a specific percentage, TILA aims to protect consumers while still allowing lenders to recoup some losses due to late payments.

**8. Before selling high-cost mortgages, what must MaxMortgage provide to purchasers?**

- A. A notice that the loans are subject to HOEPA**
- B. A guarantee that there will be no HOEPA violations**
- C. All pertinent borrower documentation**
- D. A summary of the terms of the loans**

MaxMortgage is required to provide purchasers with a notice that the loans are subject to the Home Ownership and Equity Protection Act (HOEPA) before selling high-cost mortgages. This act was established to protect consumers from predatory lending practices and requires specific disclosures for high-cost loans, ensuring transparency in lending. By informing purchasers that the loans fall under HOEPA, MaxMortgage highlights the applicable regulations and the protective measures in place for borrowers. This notice serves to ensure that all parties involved are aware of the legal framework surrounding high-cost mortgages and the heightened scrutiny that such loans must undergo to protect borrowers from potential exploitation. Advertisers, brokers, and lenders must maintain compliance with HOEPA rules, and the requirement of this notice plays a crucial role in achieving that compliance by facilitating informed decision-making regarding the purchase and origination of high-cost mortgages.

## 9. How is money laundering best defined?

- A. Using funds illegally obtained from a fraudulent mortgage transaction
- B. Filtering money through a series of transactions to hide its illegal origin**
- C. Purchasing legal financial products with illegally procured funds
- D. Transferring money into offshore accounts to avoid taxes

The best definition of money laundering is filtering money through a series of transactions to hide its illegal origin. This process typically involves three stages: placement, layering, and integration. During placement, illicit funds are introduced into the financial system. Layering involves conducting complex transactions to obscure the source of the money, making it difficult to trace back to illegal activities. Finally, integration allows the laundered money to be reintroduced into the economy, making it appear legitimate. The other options, while they describe various aspects of financial crime or illegal activity, do not encapsulate the broader and more precise definition of money laundering. For instance, using funds illegally obtained from a fraudulent mortgage transaction emphasizes a specific source of illicit funds but lacks the comprehensive process involved in money laundering. Similarly, purchasing legal financial products with illegally procured funds is a narrower action that would fall under the umbrella of money laundering but does not capture the entire process of concealing illegal origins. Transferring money into offshore accounts to avoid taxes, while potentially related to money laundering, focuses more on tax evasion rather than the overall concept of laundering illicit money. Thus, the definition that highlights the process of filtering money through transactions to disguise its illegal origins is the most accurate understanding of money laundering.

## 10. Which action does TILA require regarding adjustable-rate mortgages?

- A. To provide a standardized interest rate model
- B. To prohibit adjustable rates without borrower consent
- C. To disclose how rates will be adjusted in variable-rate loans**
- D. To guarantee fixed rates for the first five years

The Truth in Lending Act (TILA) requires lenders to disclose key information to consumers regarding the terms and conditions of loans, including adjustable-rate mortgages (ARMs). One of its primary objectives is to ensure that borrowers are fully informed about the nature of their loan products. In the context of adjustable-rate mortgages, TILA mandates that lenders provide clear and comprehensible disclosures about how interest rates will adjust over time. This includes information on the frequency of adjustments, the index used for rate adjustments, caps on rate increases, and how these adjustments might affect the borrower's payments. Such disclosures enable borrowers to make informed decisions by understanding potential changes in their repayment obligations. The other options present misunderstandings of TILA's requirements. There is no requirement for a standardized interest rate model or a prohibition on adjustable rates without borrower consent. Furthermore, TILA does not guarantee fixed rates for the first five years; instead, it focuses on transparency in the terms and adjustments of the loan.



## 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](mailto:hello@examzify.com).**

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

**<https://fedmortgagerelatedlaws.examzify.com>**

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