

Financing Residential Real Estate Practice Exam (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. How is a wrap-around mortgage beneficial to the seller?**
 - A. It allows the seller to pay off existing loans**
 - B. It enables the seller to collect interest on the entire amount**
 - C. It guarantees a higher sale price**
 - D. It simplifies the sale process**

- 2. The Richardson family's stable monthly income is \$6000, and their recurring liabilities come to \$700 per month. If they want to qualify for a 90% conventional loan, their proposed monthly housing expense (PITI) probably should not exceed what amount?**
 - A. \$1200**
 - B. \$1460**
 - C. \$1800**
 - D. \$2000**

- 3. According to general underwriting rules, how long must a self-employed business run profitably for income to be considered stable?**
 - A. 1 year**
 - B. 2 years**
 - C. 3 years**
 - D. 5 years**

- 4. Which of the following is NOT typically included in a mortgage loan application?**
 - A. Personal identification**
 - B. Employment history**
 - C. Investment stock portfolio details**
 - D. Credit history**

- 5. What purpose does a discount point serve in a mortgage loan?**
 - A. Helps increase the down payment**
 - B. Reduces the interest cost over the life of the loan**
 - C. Is a fee charged for late payments**
 - D. Increases the loan amount**

- 6. What may a lender obtain if the proceeds from a sheriff's sale are insufficient to cover the mortgage balance?**
- A. A foreclosure judgment**
 - B. A deficiency judgment**
 - C. A credit report**
 - D. A lost revenue report**
- 7. What does "REO" stand for in real estate?**
- A. Real Estate Owned**
 - B. Real Estate Obligation**
 - C. Residential Equity Ownership**
 - D. Real Estate Office**
- 8. What does "subject to" mean in a real estate financing context?**
- A. A purchase agreement where the buyer assumes all debts**
 - B. A purchase agreement involving cash only**
 - C. A purchase agreement where the buyer takes over existing mortgage payments**
 - D. A legally binding offer to purchase real estate**
- 9. Which type of interest rate changes over time based on market conditions?**
- A. Fixed Rate**
 - B. Variable Rate**
 - C. Temporary Rate**
 - D. Amortizing Rate**
- 10. What is the significance of a commitment letter from a lender?**
- A. It guarantees the lowest interest rate for the borrower**
 - B. It indicates the lender's agreement to provide a loan under specific terms**
 - C. It serves as a legal contract for the sale of the property**
 - D. It is a pre-approval letter with no obligations**

Answers

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

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Explanations

1. How is a wrap-around mortgage beneficial to the seller?

- A. It allows the seller to pay off existing loans**
- B. It enables the seller to collect interest on the entire amount**
- C. It guarantees a higher sale price**
- D. It simplifies the sale process**

A wrap-around mortgage is beneficial to the seller primarily because it enables the seller to collect interest on the entire amount financed through the mortgage. In this arrangement, the seller maintains their existing mortgage while creating a new wrap-around loan that encompasses both the existing mortgage balance and the additional amount being financed for the buyer. This structure allows the seller to charge a higher interest rate on the combined wrap-around loan compared to the rate on their existing mortgage, ultimately resulting in increased interest income. The seller can effectively profit from the difference between the interest rate received from the buyer and the rate paid to the lender on their original mortgage, enhancing their cash flow. In addition to this financial advantage, wrap-around mortgages can facilitate sales in situations where buyers may not qualify for traditional financing, allowing sellers to market their property to a broader audience. However, while these aspects contribute to the appeal of this arrangement, the primary benefit that stands out is the capacity for the seller to earn interest on the full sum involved in the transaction.

2. The Richardson family's stable monthly income is \$6000, and their recurring liabilities come to \$700 per month. If they want to qualify for a 90% conventional loan, their proposed monthly housing expense (PITI) probably should not exceed what amount?

- A. \$1200**
- B. \$1460**
- C. \$1800**
- D. \$2000**

To determine the maximum proposed monthly housing expense (PITI - Principal, Interest, Taxes, and Insurance) for the Richardson family, we need to look at the elements of qualifying for a conventional loan, particularly when it comes to debt-to-income ratios. In general, lenders prefer that a borrower's total monthly housing expenses should not exceed 28% to 31% of their gross monthly income. In this case, the Richardson family's stable monthly income is \$6000. Calculating the upper limit for their housing expense involves multiplying their income by the permissible percentage for housing expenses. If we take 28% as a conservative figure, the calculation would be: $\$6000 \times 0.28 = \1680 . Additionally, we also consider their recurring liabilities of \$700. The total monthly obligations should ideally not exceed about 36% to 43% of their income, depending on the lender's guidelines. When we consider housing expenses and all other liabilities together, we can aim for an overall maximum debt-to-income ratio. For simplicity, we can adjust for other liabilities to keep total payments within a common range. Using the 36% ratio guideline: $\$6000 \times 0.36 = \2160 (total allowance for

3. According to general underwriting rules, how long must a self-employed business run profitably for income to be considered stable?

- A. 1 year
- B. 2 years**
- C. 3 years
- D. 5 years

To assess the financial stability of a self-employed individual for underwriting purposes, lenders typically look for a track record of consistent profitability. A duration of two years is generally regarded as the minimum standard for establishing a stable income stream. This timeframe allows lenders to examine the self-employed individual's financial performance, such as net income and cash flow, over enough time to gauge the sustainability of the business. The two-year requirement helps ensure that the income is not just a temporary spike, but rather reflective of a steady business operation. In the underwriting process, this historical data reduces the risk for lenders by demonstrating that the self-employed borrower can maintain their income over a reasonable period. A shorter timeframe may yield insufficient data on business cycles or variability in income, while longer periods might be unnecessary and could complicate the process without providing significantly more assurance of stability.

4. Which of the following is NOT typically included in a mortgage loan application?

- A. Personal identification
- B. Employment history
- C. Investment stock portfolio details**
- D. Credit history

The correct answer is that investment stock portfolio details are not typically included in a mortgage loan application. When applying for a mortgage, lenders are primarily focused on assessing the borrower's ability to repay the loan. This assessment involves evaluating financial stability and risk, which is generally reflected in factors such as personal identification, employment history, and credit history. Personal identification verifies the identity of the applicant, while employment history confirms their job stability and income level — both crucial for lenders when determining loan eligibility. Credit history provides a snapshot of the borrower's past behavior concerning debt management and repayment. Investment stock portfolios, while an indicator of wealth, do not provide direct insight into regular income or repayment capability needed for typical mortgage assessments. Therefore, this information is generally not required as part of the core documentation that lenders use to evaluate mortgage applications.

5. What purpose does a discount point serve in a mortgage loan?

A. Helps increase the down payment

B. Reduces the interest cost over the life of the loan

C. Is a fee charged for late payments

D. Increases the loan amount

A discount point in a mortgage loan serves to reduce the overall interest cost over the life of the loan. When a borrower pays for discount points, they are making an upfront payment to lower their mortgage interest rate. Typically, one discount point is equivalent to one percent of the loan amount and results in a decrease in the interest rate by a predetermined amount, often around 0.25 percentage points. This reduction in the interest rate translates to lower monthly payments and significant savings on interest over the term of the loan, ultimately making homeownership more affordable for the borrower. The choice of using discount points can be very strategic, especially for those who plan to stay in their home for a long time, as the initial investment pays off in reduced payments over time.

6. What may a lender obtain if the proceeds from a sheriff's sale are insufficient to cover the mortgage balance?

A. A foreclosure judgment

B. A deficiency judgment

C. A credit report

D. A lost revenue report

A lender may obtain a deficiency judgment when the proceeds from a sheriff's sale are insufficient to cover the outstanding balance on a mortgage. This situation arises in the event of foreclosure, where the property is sold at auction, typically at a lower price than expected. If the sale does not generate enough funds to pay off the entire mortgage debt, a deficiency judgment allows the lender to hold the borrower responsible for the remaining balance. This judgment essentially provides the lender with a legal claim to collect the unpaid amount from the borrower, which can lead to further collection actions, such as wage garnishment or bank levies, depending on jurisdictional laws. It serves as a means for the lender to recover losses incurred due to the foreclosure process. Understanding deficiency judgments is important, especially for borrowers facing foreclosure, as it highlights potential ongoing financial liabilities beyond the loss of the property itself.

7. What does "REO" stand for in real estate?

- A. Real Estate Owned**
- B. Real Estate Obligation**
- C. Residential Equity Ownership**
- D. Real Estate Office**

"REO" stands for "Real Estate Owned." This term is used primarily in the context of properties that are owned by a lender, typically a bank, after an unsuccessful foreclosure auction. When a property fails to sell at auction, it reverts to the lender and enters their inventory as an REO property. Understanding this term is important for individuals involved in real estate transactions, particularly in relation to foreclosures, as these properties can often be acquired at a lower price compared to traditional listings. The other options do not accurately define REO. For instance, "Real Estate Obligation" suggests a commitment or liability related to real estate, which does not capture the meaning of properties held by a lender. "Residential Equity Ownership" focuses on the ownership rights and financial aspects of residential properties, but does not convey the specific state of a property after foreclosure. "Real Estate Office" refers to the business entity involved in real estate transactions, which is unrelated to the condition of the property itself.

8. What does "subject to" mean in a real estate financing context?

- A. A purchase agreement where the buyer assumes all debts**
- B. A purchase agreement involving cash only**
- C. A purchase agreement where the buyer takes over existing mortgage payments**
- D. A legally binding offer to purchase real estate**

In real estate financing, the term "subject to" refers specifically to a situation where a buyer acquires property while taking over the existing mortgage payments without formally assuming the loan. This means that the original borrower remains liable for the mortgage, but the buyer will begin making the payments. This arrangement allows the buyer to take control of the property and benefit from the existing financing terms, which may include a lower interest rate or favorable repayment schedule compared to current market conditions. This method is attractive for buyers looking for alternative financing options, especially if they do not qualify for a new loan or want to avoid high borrowing costs. The original lender is typically not notified of the transfer, but the existing agreement remains in effect between the original borrower and the lender. This distinction is important because it allows the buyer to leverage the existing financing structure while also exposing the original borrower to potential risks regarding the loan's outcome. Other choices do not capture this nuance accurately. For example, in a scenario where the buyer assumes all debts, they effectively become legally responsible for the loan, which differs from a "subject to" arrangement. Similarly, a purchase agreement involving cash only does not involve taking over financing at all, while a legally binding offer to purchase real estate, while important, does

9. Which type of interest rate changes over time based on market conditions?

A. Fixed Rate

B. Variable Rate

C. Temporary Rate

D. Amortizing Rate

The type of interest rate that changes over time based on market conditions is known as a variable rate. This rate is typically tied to a benchmark interest rate, such as the prime rate or LIBOR, and can fluctuate at predetermined intervals, depending on the movements in those benchmarks. This characteristic allows the borrower's payment amounts to vary, which can be beneficial in a declining interest rate environment, as it can lead to lower payments over time. In contrast, a fixed-rate interest remains constant throughout the term of the loan, providing predictable payments but not benefiting from potential decreases in market rates. Temporary rates, while they may apply for a short period, do not necessarily adjust based on market conditions in the same way a variable rate does. Amortizing rates refer to a repayment structure where loan payments are spread out over time, rather than being an interest type itself, and this structure can be applied to both fixed and variable rates. Thus, the concept of adjusting based on market conditions clearly identifies the variable rate as the correct answer.

10. What is the significance of a commitment letter from a lender?

A. It guarantees the lowest interest rate for the borrower

B. It indicates the lender's agreement to provide a loan under specific terms

C. It serves as a legal contract for the sale of the property

D. It is a pre-approval letter with no obligations

A commitment letter from a lender is significant because it indicates the lender's agreement to provide a loan under specific terms. This document outlines the amount of loan being offered, the interest rate, the repayment schedule, and any conditions that must be met before the funds can be disbursed. It implies that the lender has conducted a thorough assessment of the borrower's financial situation, including creditworthiness and ability to repay, leading to a more formal promise of financing. This agreement is vital for borrowers as it solidifies their financing options, allowing them to proceed confidently with their purchase or investment. Unlike a simple pre-approval, which might give a tentative idea of eligibility and potential financing, a commitment letter reflects a deeper level of certainty and formal agreement from the lender. This can enhance a borrower's negotiating power when making an offer on a property, as sellers often prefer buyers who have secured such commitments.

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://financingresidentialrealestate.examzify.com>

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