

Freddie Mac CreditSmart Homebuyer U Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What percentage of a credit score is based on the 'Amounts Owed' characteristic?**
 - A. 10%**
 - B. 30%**
 - C. 50%**
 - D. 15%**
- 2. What process allows another qualified buyer to take over your mortgage debt and payments?**
 - A. Assumption**
 - B. Modification**
 - C. Transfer**
 - D. Repayment**
- 3. If a real estate agent performs well, does it mean no further research is needed by the homebuyer?**
 - A. Yes, trust is sufficient**
 - B. No, further homework is still necessary**
 - C. Only if the agent is highly recommended**
 - D. Research is needed only for first-time buyers**
- 4. How can homeowners build equity in their property?**
 - A. Increasing the home's value**
 - B. Paying down the mortgage**
 - C. Both increasing value and paying down the mortgage**
 - D. Renovating the property**
- 5. Is it important to inquire about local homeownership programs?**
 - A. Not really, most people don't qualify**
 - B. Yes, it can provide valuable options**
 - C. Only if you are a first-time homebuyer**
 - D. No, federal programs are sufficient**

- 6. How many months' worth of expenses should an emergency fund ideally cover?**
- A. 1-2 months**
 - B. 3-6 months**
 - C. 6-8 months**
 - D. 9-12 months**
- 7. Which of the following are components of home safety practices?**
- A. Keep bushes trimmed and electrical systems up-to-date**
 - B. Ignore small electrical issues until they become serious**
 - C. Only trim bushes if they obstruct views**
 - D. Store hazardous materials in the home**
- 8. What is a Foreclosure Rescue Scam?**
- A. A service that helps homeowners refinance their loans**
 - B. Charging rent while promising homeowners they can repurchase their homes later**
 - C. Offering legal advice to avoid foreclosure**
 - D. Suspending mortgage payments for good conduct**
- 9. What are the benefits of making pre-payments on a mortgage?**
- A. It reduces the number of years you pay mortgage insurance**
 - B. It can save you tens of thousands of dollars in interest**
 - C. It allows you to skip a month of payments**
 - D. It guarantees approval for future loans**
- 10. What should you do immediately when disaster strikes?**
- A. Wait for help to arrive**
 - B. Implement your emergency plan**
 - C. Start making repairs to your home**
 - D. Contact friends and family before taking action**

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. What percentage of a credit score is based on the 'Amounts Owed' characteristic?

- A. 10%**
- B. 30%**
- C. 50%**
- D. 15%**

The 'Amounts Owed' characteristic of a credit score accounts for 30% of the overall credit score calculation. This category primarily evaluates how much debt a consumer has in relation to their total available credit, including the balances on credit cards and loans as well as the credit utilization ratio. High amounts owed can indicate greater risk to lenders, especially if the consumer is utilizing a significant portion of their available credit, which can negatively impact their credit score. Understanding the weight of 'Amounts Owed' is crucial for individuals looking to improve or maintain their credit score, as managing outstanding debts and keeping credit utilization low can lead to better credit outcomes. This focus on debt levels influences lending decisions and is a vital part of the credit scoring model.

2. What process allows another qualified buyer to take over your mortgage debt and payments?

- A. Assumption**
- B. Modification**
- C. Transfer**
- D. Repayment**

The process that allows another qualified buyer to take over your mortgage debt and payments is known as an assumption. This option is significant because it provides the original borrower with a way to transfer their mortgage obligation to someone else, ensuring that the mortgage continues to be serviced without triggering a due-on-sale clause, which might require full repayment of the loan upon sale. In an assumption, the buyer takes on the responsibility for making the mortgage payments, and the lender must approve this new arrangement. This can be beneficial for sellers in a competitive housing market or when moving to a different property, as it makes their home more attractive to potential buyers, especially if the existing mortgage rate is favorable compared to current market rates. Understanding this process is crucial for both buyers and sellers since it involves specific conditions and qualifications mandated by the lender, which ensures that the buyer can responsibly handle the debt being assumed.

3. If a real estate agent performs well, does it mean no further research is needed by the homebuyer?

A. Yes, trust is sufficient

B. No, further homework is still necessary

C. Only if the agent is highly recommended

D. Research is needed only for first-time buyers

When considering whether further research is needed by the homebuyer after receiving a real estate agent's assistance, the perspective that more homework is essential emphasizes the importance of being well-informed throughout the buying process. Even if a real estate agent performs well, homebuyers should independently verify information and conduct their own due diligence. This continued research helps homebuyers understand the nuances of the housing market, including neighborhood dynamics, financing options, property values, and potential future developments that might affect their investment. While a skilled agent can provide valuable insights and guidance, homebuyers play a crucial role in their own decision-making process. By conducting their own research, they can ensure that their choices align with their specific needs, preferences, and financial plans, ultimately leading to a more confident and informed purchase. The other choices imply a reliance solely on the agent's performance or restrict the need for research to specific scenarios, which can be limiting for buyers who need to consider a broad range of factors in their homeownership journey.

4. How can homeowners build equity in their property?

A. Increasing the home's value

B. Paying down the mortgage

C. Both increasing value and paying down the mortgage

D. Renovating the property

Homeowners can build equity in their property through two primary methods: increasing the home's value and paying down the mortgage. Increasing the home's value can be achieved through various means such as making renovations, enhancing curb appeal, or improving the overall condition of the property. As the property's market value rises, so does the homeowner's equity—this is the difference between the market value of the home and the outstanding mortgage balance. On the other hand, paying down the mortgage directly increases equity as it reduces the amount owed on the loan. With each mortgage payment that goes toward the principal, the amount of equity in the home grows. Therefore, both factors—appreciation of the property's value and reduction of the mortgage balance—contribute together to the overall equity a homeowner has built in their property. Renovating the property can lead to an increase in value, which is why it aligns with increasing the home's value but does not address the mortgage aspect, making it a less comprehensive option. Thus, the best approach to building equity encompasses both increasing the home's value and paying down the mortgage.

5. Is it important to inquire about local homeownership programs?

- A. Not really, most people don't qualify**
- B. Yes, it can provide valuable options**
- C. Only if you are a first-time homebuyer**
- D. No, federal programs are sufficient**

Inquiring about local homeownership programs is indeed important because these programs can offer valuable resources and options tailored to the needs of prospective homebuyers in a specific area. Local programs often include assistance such as down payment grants, low-interest loans, and educational resources that can facilitate the homebuying process. These programs can be designed to address the unique challenges and opportunities within a community, which may not be addressed by federal programs alone. Additionally, local initiatives can take into account the economic conditions, housing market dynamics, and demographic needs of the area, making them particularly relevant for individuals seeking to purchase homes. Understanding available local programs can significantly benefit potential buyers, as they may provide opportunities for financial assistance that could make homeownership more accessible and affordable.

6. How many months' worth of expenses should an emergency fund ideally cover?

- A. 1-2 months**
- B. 3-6 months**
- C. 6-8 months**
- D. 9-12 months**

An emergency fund should ideally cover 3 to 6 months' worth of expenses. This range is widely recommended by financial experts because it provides a sufficient cushion to handle unforeseen financial circumstances, such as job loss, medical emergencies, or urgent repairs. Having this amount saved ensures that individuals can maintain their standard of living and meet their financial obligations during a crisis without falling into debt or financial instability. A fund covering 1-2 months may not be sufficient to address longer-term disruptions, while 6-8 months is generally seen as more than necessary for most situations. Similarly, 9-12 months may offer an excessive buffer that could be better utilized in other investments or savings strategies, as maintaining a very large emergency fund can lead to opportunity costs. Therefore, the 3 to 6 months guideline strikes a balance between preparedness and efficient use of financial resources.

7. Which of the following are components of home safety practices?

- A. Keep bushes trimmed and electrical systems up-to-date**
- B. Ignore small electrical issues until they become serious**
- C. Only trim bushes if they obstruct views**
- D. Store hazardous materials in the home**

The correct choice highlights important components of home safety practices that contribute to a secure living environment. Keeping bushes trimmed prevents potential hiding spots for intruders and enhances visibility around the property, which can deter criminal activity. Additionally, ensuring that electrical systems are up-to-date reduces the risk of electrical fires and injuries, promoting overall safety within the home. Maintaining landscaping and electrical systems is a proactive approach to home safety, fostering a secure atmosphere for inhabitants by addressing potential hazards before they escalate. This approach aligns with best practices in home maintenance and safety protocols.

8. What is a Foreclosure Rescue Scam?

- A. A service that helps homeowners refinance their loans**
- B. Charging rent while promising homeowners they can repurchase their homes later**
- C. Offering legal advice to avoid foreclosure**
- D. Suspending mortgage payments for good conduct**

A Foreclosure Rescue Scam typically involves deceptive practices aimed at vulnerable homeowners who are facing financial hardships and the possibility of losing their homes to foreclosure. The scenario described in the chosen answer accurately reflects a common tactic used by scammers. These scams often involve perpetrators who promise distressed homeowners that they can help them keep their homes by allowing them to rent their property temporarily while assuring them that they will have the opportunity to repurchase it later. However, the reality is that these scammers may take the homeowners' money and leave them with no real options for repurchasing their home, potentially leading to further financial crisis and loss of property. This distinct approach highlights the manipulative nature of such scams, where homeowners are led to believe in a false sense of security and hope. By charging rent without any intention of facilitating a genuine repurchase, these scammers exploit the desperation of individuals who are already in a precarious situation, thus fitting the definition of a Foreclosure Rescue Scam effectively. The other options, while related to financial services, do not embody the deceptive and manipulative essence of what constitutes a Foreclosure Rescue Scam.

9. What are the benefits of making pre-payments on a mortgage?

- A. It reduces the number of years you pay mortgage insurance**
- B. It can save you tens of thousands of dollars in interest**
- C. It allows you to skip a month of payments**
- D. It guarantees approval for future loans**

Making pre-payments on a mortgage primarily benefits homeowners by significantly reducing the amount of interest paid over the life of the loan. When you make extra payments towards the principal balance, it not only decreases the remaining balance but also reduces the total interest that accrues. This is because interest is calculated based on the outstanding principal; the lower the principal, the lower the interest charged. For example, if a homeowner makes regular additional payments towards the principal, the mortgage balance decreases faster than it would with standard monthly payments. As a result, fewer total interest charges accumulate over the duration of the loan. This can lead to savings that amount to tens of thousands of dollars, depending on the loan amount, interest rate, and loan term. This is why option B accurately reflects a key advantage of making pre-payments on a mortgage.

10. What should you do immediately when disaster strikes?

- A. Wait for help to arrive**
- B. Implement your emergency plan**
- C. Start making repairs to your home**
- D. Contact friends and family before taking action**

Implementing your emergency plan is the most effective first step you can take when disaster strikes. An emergency plan is designed to provide clear, organized actions to ensure safety and reduce chaos during a crisis. By following your predetermined emergency plan, you can quickly assess the situation, ensure the safety of yourself and others, and begin coordinating necessary actions. This may include evacuating if necessary, securing property, and seeking medical assistance for any injuries. When you act according to your plan, you are more likely to respond efficiently and keep yourself and others safe during the immediate aftermath of a disaster. In contrast, waiting for help to arrive or contacting friends and family may delay vital actions that are necessary to ensure safety and well-being. Starting repairs right away, without first assessing the immediate dangers and ensuring safety, can also lead to further risks. Thus, having and following an emergency plan positions you to handle the situation with greater confidence and preparedness.