

Loan Officer 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. Under Reg Z, how long does Lisa have to rescind a loan after signing closing documents?**
 - A. 0 days**
 - B. 30 days**
 - C. 24 hours**
 - D. 3 business days**
- 2. What is the primary purpose of the Fair and Accurate Credit Transactions Act?**
 - A. Protect consumers from identity theft**
 - B. Ensure accurate maintenance of consumer credit information**
 - C. Regulate credit bureau reporting obligations**
 - D. Prevent the funding of terrorist operations**
- 3. What is the primary purpose of a mortgage note?**
 - A. To establish the property's title**
 - B. To outline the borrower's promises to repay**
 - C. To provide a credit analysis**
 - D. To detail closing costs**
- 4. Which of the following is targeted for protection under the Gramm-Leach-Bliley Act?**
 - A. Commercial transactions**
 - B. Consumer's personal financial information**
 - C. International transfers**
 - D. Credit scores**
- 5. An item claimed on a self-employed applicant's tax returns may be disallowed as income if it is reported as?**
 - A. A cash expense**
 - B. A paper expense**
 - C. A depreciation over time**
 - D. A one-time event**

- 6. According to the Fannie Mae Selling Guide, which of the following is NOT a requirement for the use of a power of attorney (POA) in securing signatures?**
- A. Eligible transactions include purchase and refinance**
 - B. The POA must be notarized**
 - C. A copy of the POA must be maintained by the lender**
 - D. A family member can act as the POA signer**
- 7. What type of easement allows Jacob and Jeremy to share a driveway and maintain costs?**
- A. Easement by necessity**
 - B. Easement by prescription**
 - C. Easement by agreement**
 - D. Easement by implication**
- 8. What characterizes a higher-priced mortgage loan?**
- A. Uses the average prime offer rate as an index to compare the annual percentage rate.**
 - B. Includes finance charges greater than 5% of the loan amount.**
 - C. Has an interest rate above the conforming loan limit.**
 - D. Requires private mortgage insurance.**
- 9. In the context of mortgage lending, what does DTI ratio stand for?**
- A. Debt to Income ratio**
 - B. Direct Taxation Index**
 - C. Debt Transfer Indicator**
 - D. Debt Threshold Index**
- 10. What is a method lenders use for disbursing construction loan proceeds to prevent borrower overspending?**
- A. Escrow Disbursement Plan**
 - B. Fixed Disbursement Plan**
 - C. Variable Disbursement Plan**
 - D. Loan Disbursement Method**

Answers

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

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Explanations

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1. Under Reg Z, how long does Lisa have to rescind a loan after signing closing documents?

- A. 0 days**
- B. 30 days**
- C. 24 hours**
- D. 3 business days**

Under Regulation Z, which implements the Truth in Lending Act, a borrower has the right to rescind or cancel certain types of loans, specifically those secured by a borrower's primary residence. This right applies to transactions involving refinances of their primary residence and home equity loans, giving borrowers a specific timeframe to reconsider their decision. The correct duration for the rescission period is three business days. This means that from the date the borrower signs the closing documents, they have three business days to cancel the loan without any penalty or obligation. The purpose of this cooling-off period is to give borrowers a chance to review the terms and conditions of the loan, ensuring they are fully informed before proceeding. The other choices do not align with the provisions set out under Regulation Z, making them incorrect. The choices reflecting 0 days, 30 days, or 24 hours misinterpret the established timeline for rescission rights under federal law. Understanding these timelines is crucial for loan officers as they assist borrowers in navigating their rights and responsibilities concerning loan agreements.

2. What is the primary purpose of the Fair and Accurate Credit Transactions Act?

- A. Protect consumers from identity theft**
- B. Ensure accurate maintenance of consumer credit information**
- C. Regulate credit bureau reporting obligations**
- D. Prevent the funding of terrorist operations**

The Fair and Accurate Credit Transactions Act (FACTA) primarily aims to protect consumers from identity theft by enhancing consumer protections and promoting accuracy within the credit reporting system. It introduced several key provisions to help consumers safeguard their personal information, including the ability for individuals to request a free credit report annually from each of the three major credit reporting agencies. Additionally, FACTA established requirements for businesses to implement measures that protect sensitive consumer data. While other elements, such as ensuring the accurate maintenance of consumer credit information and regulating credit bureau reporting obligations, are relevant to the broader context of credit reporting, the central focus of FACTA is its consumer protection measures against identity theft. These measures help individuals take proactive steps in monitoring their credit and responding to potential fraud, which is why the option highlighting protection from identity theft is the most accurate representation of the act's primary purpose. The option related to preventing the funding of terrorist operations, while important in its own context, does not align with the core functions of FACTA, which is much more focused on consumer credit issues.

3. What is the primary purpose of a mortgage note?

- A. To establish the property's title
- B. To outline the borrower's promises to repay**
- C. To provide a credit analysis
- D. To detail closing costs

The primary purpose of a mortgage note is to outline the borrower's promises to repay the loan. This legal document serves as a written promise from the borrower to the lender, detailing the specific terms of the loan, including the amount borrowed, the interest rate, the repayment schedule, and the consequences of default. It is a critical document in the lending process, as it formalizes the borrower's obligations and ensures there is a clear understanding of the loan terms. In contrast, establishing the property's title is typically the role of a deed rather than a mortgage note, which is mainly focused on the borrower's financial promises. A credit analysis is not specified in the mortgage note itself, as it is part of the underwriting process before the loan is issued. Lastly, while closing costs are essential components of the home-buying process, they are not addressed within the mortgage note. Instead, they are detailed in other documents related to the loan transaction, such as the Closing Disclosure.

4. Which of the following is targeted for protection under the Gramm-Leach-Bliley Act?

- A. Commercial transactions
- B. Consumer's personal financial information**
- C. International transfers
- D. Credit scores

The Gramm-Leach-Bliley Act (GLBA) is primarily focused on protecting consumers' personal financial information. This legislation was enacted to ensure that financial institutions are transparent about their information-sharing practices and to provide consumers with a measure of control over their data. Under the GLBA, institutions are required to establish privacy policies and practices that safeguard consumer information and to provide notices to consumers that explain how their information may be shared with third parties. This protection is crucial because it addresses concerns over the confidentiality and security of sensitive financial data, preventing unauthorized access and misuse. GLBA emphasizes the importance of safeguarding personal information to build trust between consumers and financial institutions. In contrast, options related to commercial transactions, international transfers, and credit scores do not fall under the primary scope of the GLBA. While these areas may have other regulations or considerations, the central focus of the Gramm-Leach-Bliley Act is on the protection of consumers' personal financial information.

5. An item claimed on a self-employed applicant's tax returns may be disallowed as income if it is reported as?

- A. A cash expense**
- B. A paper expense**
- C. A depreciation over time**
- D. A one-time event**

When evaluating income claimed on self-employed applicants' tax returns, certain expenses may not be considered as stable or reliable sources of income, particularly those that are classified as a one-time event. Income or deductions resulting from a one-time occurrence may not accurately reflect the applicant's ongoing financial situation. Lenders typically look for consistent and sustainable income sources, and one-time events do not provide the necessary assurance of future earning potential. The distinction here is crucial because recurrent income is more indicative of a borrower's ability to repay a loan. For example, if an applicant reports a large sum of income from a one-time contract or project, it does not establish a pattern that the lender can rely on for future payments. Therefore, such one-time claims can be disallowed when assessing overall income stability, highlighting the importance of ongoing cash flow in the lending process. In contrast, aspects such as cash expenses, paper expenses, and depreciation over time may have relevant considerations in tax reporting but do not directly correlate with disallowing income in the same definitive manner as a one-time event might.

6. According to the Fannie Mae Selling Guide, which of the following is NOT a requirement for the use of a power of attorney (POA) in securing signatures?

- A. Eligible transactions include purchase and refinance**
- B. The POA must be notarized**
- C. A copy of the POA must be maintained by the lender**
- D. A family member can act as the POA signer**

The correct choice highlights that a family member can act as the POA signer, but this is not a requirement specified in the Fannie Mae Selling Guide. The requirement focuses more on the eligibility of transactions (such as purchase and refinance), the notarization of the POA, and the necessity for the lender to maintain a copy of the POA. These elements ensure that the use of the power of attorney is secure, verifiable, and compliant with legal standards. In contrast, the involvement of a family member as a signer is not dictated by the guidelines, which may allow for broader criteria regarding who can act as the attorney-in-fact. The flexibility around who can serve in this role reflects the understanding that a POA can be appointed by an individual to suit their needs, as long as it meets the established guidelines of authenticity and proper documentation. This nuance is important for both lenders and borrowers to understand in facilitating real estate transactions involving a POA.

7. What type of easement allows Jacob and Jeremy to share a driveway and maintain costs?

- A. Easement by necessity**
- B. Easement by prescription**
- C. Easement by agreement**
- D. Easement by implication**

The type of easement that allows Jacob and Jeremy to share a driveway and maintain costs is an easement by agreement. This is a mutual understanding between the parties involved, which outlines the terms of using the driveway, including maintenance responsibilities and shared costs. An easement by agreement is a proactive arrangement that ensures both parties have a clearly defined right to use the property in a specified manner, thus avoiding potential disputes. Easement by necessity applies when one party requires access to a property and has no other means of doing so, typically involving circumstances where a landlocked parcel needs a path to a road. Easement by prescription necessitates continuous and open use of a property without the permission of the owner for a statutory period. Easement by implication arises when there is an apparent and continuous use that was intended to benefit one party, often inferred from the situation of the properties at the time of the transfer. In this scenario, as Jacob and Jeremy are actively agreeing and formalizing their shared use and cost-sharing for the driveway, an easement by agreement is the most fitting choice.

8. What characterizes a higher-priced mortgage loan?

- A. Uses the average prime offer rate as an index to compare the annual percentage rate.**
- B. Includes finance charges greater than 5% of the loan amount.**
- C. Has an interest rate above the conforming loan limit.**
- D. Requires private mortgage insurance.**

A higher-priced mortgage loan is characterized by its relation to the average prime offer rate (APOR). This standard is crucial as it establishes a benchmark to identify loans with higher interest rates compared to typical market rates. A loan is classified as higher-priced if its annual percentage rate (APR) exceeds the APOR by a specific margin, providing a clear measure of the interest costs relative to prevailing economic conditions. The other options, while related to various aspects of mortgage loans, do not accurately define a higher-priced mortgage loan. For instance, finance charges greater than a certain percentage might indicate additional costs but do not specifically apply to the definition of a higher-priced mortgage. Similarly, the interest rate being above the conforming loan limit pertains more to loan categorization rather than pricing classification. Lastly, the requirement for private mortgage insurance (PMI) is related to encompassing loans where the down payment is less than 20%, but it does not correlate with whether a loan is deemed higher-priced. Therefore, using the average prime offer rate as a comparative index distinctly characterizes higher-priced mortgage loans.

9. In the context of mortgage lending, what does DTI ratio stand for?

- A. Debt to Income ratio**
- B. Direct Taxation Index**
- C. Debt Transfer Indicator**
- D. Debt Threshold Index**

The correct answer is Debt to Income ratio. This term refers to a financial metric used by lenders to assess a borrower's ability to manage monthly payments and repay debts. The DTI ratio is calculated by dividing an individual's monthly debt payments by their gross monthly income, expressed as a percentage. A lower DTI ratio is preferable as it indicates that a borrower has a manageable level of debt relative to their income, making them a more attractive candidate for a mortgage. Lenders commonly use this ratio to evaluate risk, as it provides insight into a borrower's financial health and their capacity to take on additional debt. Understanding the DTI ratio is crucial for loan officers when determining the eligibility of borrowers for mortgage products.

10. What is a method lenders use for disbursing construction loan proceeds to prevent borrower overspending?

- A. Escrow Disbursement Plan**
- B. Fixed Disbursement Plan**
- C. Variable Disbursement Plan**
- D. Loan Disbursement Method**

The correct method lenders use for disbursing construction loan proceeds to prevent borrower overspending is known as the Fixed Disbursement Plan. This approach allocates funds in predetermined amounts at specific stages of the construction process rather than providing the full loan amount upfront. In a Fixed Disbursement Plan, lenders typically release funds as the project reaches certain milestones, such as completion of the foundation, framing, or roofing. This structure ensures that the borrower receives funds only when necessary and in accordance with the progress of the construction, thereby mitigating the risk of overspending. By linking the disbursement of funds to specific benchmarks, lenders can maintain better oversight of the project and ensure that funds are used for their intended purpose—constructing the property. Other methods, like those not specifically defined as 'fixed,' may allow for more flexible disbursement but could increase the risk of overspending by granting broad access to funds at the borrower's discretion. Therefore, the Fixed Disbursement Plan stands out as a disciplined approach, safeguarding both the lender's investment and the integrity of the construction project.

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://loanofficer.examzify.com>

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