

NACA Pre-Purchase Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. What document is NOT required for the Self-Employment Income Calculation for a Corporate Member?**
 - A. Personal tax returns for the last two years**
 - B. Recent pay stubs from all employers**
 - C. Last two years of corporate tax returns**
 - D. Recent Profit and Loss Statement prepared by an accountant**
- 2. Who responds to Member Services inquiries?**
 - A. Real Estate Brokers**
 - B. Service Representatives**
 - C. Escrow Coordinators**
 - D. Training and Development Staff**
- 3. Which stage in the intake process is primarily concerned with planning for future steps?**
 - A. Budget Stage**
 - B. Action Plan Stage**
 - C. Affordability Stage**
 - D. Income Stage**
- 4. Which statement best defines income stability for a Wage Earner?**
 - A. 12 months with the same employer**
 - B. 24 months continuous employment with no gaps**
 - C. 24 months with the same employer and small gaps are allowed**
 - D. 12 months with only sporadic work history**
- 5. Which document is required to verify the member's tax return submission?**
 - A. Bank Statements**
 - B. Tax Account Summary**
 - C. Tax Return Transcript**
 - D. Financial Affidavit**

- 6. What is the reserve requirement for purchasing a four-family duplex?**
- A. Three months**
 - B. Four months**
 - C. Five months**
 - D. Six months**
- 7. What must be requested before a bank application for a Condo/Co-op property?**
- A. The completed Condo/Co-op questionnaire**
 - B. A valid credit report**
 - C. A construction loan agreement**
 - D. A seller's contribution form**
- 8. What is included in the closing expenses for a Member?**
- A. Homeowner's insurance for the first month**
 - B. PMI only**
 - C. HOI escrow for 3 months**
 - D. All taxes and insurance for the first year**
- 9. NACA's maximum CLTV amounts can exceed 100% for purchases and for rehabs under what condition?**
- A. Only for private sector funding**
 - B. Only if funds are given for down payment, closing costs, repairs, etc.**
 - C. Only for public sector funding**
 - D. None of the above**
- 10. What is the first step a member must take to qualify for construction financing through NACA?**
- A. Obtain seller contributions**
 - B. Qualify for the desired PITI**
 - C. Apply for a different lender's construction loan**
 - D. Submit a condo/co-op questionnaire**

Answers

SAMPLE

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

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Explanations

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1. What document is NOT required for the Self-Employment Income Calculation for a Corporate Member?

- A. Personal tax returns for the last two years**
- B. Recent pay stubs from all employers**
- C. Last two years of corporate tax returns**
- D. Recent Profit and Loss Statement prepared by an accountant**

The correct answer is that recent pay stubs from all employers are not required for the Self-Employment Income Calculation for a Corporate Member. In the context of evaluating self-employment income, the focus is on the revenue generated through the business rather than wages or salaries from employment. When assessing self-employment income, relevant documents include personal tax returns for the last two years, corporate tax returns, and a recent profit and loss statement. These documents provide a comprehensive picture of the business's financial health and the individual's income derived from the corporation. Personal tax returns reflect the individual's overall income, corporate tax returns showcase the business's earnings, and a profit and loss statement highlights current financial performance. In contrast, pay stubs are more applicable to traditional employment scenarios and typically do not reflect self-employment income. Therefore, they are not utilized in the calculation of income for those deriving earnings from a corporate entity.

2. Who responds to Member Services inquiries?

- A. Real Estate Brokers**
- B. Service Representatives**
- C. Escrow Coordinators**
- D. Training and Development Staff**

Member Services inquiries are specifically handled by Service Representatives. These individuals are trained to address the various questions and concerns that members may have, providing accurate information and support related to the services offered. Their primary role involves interacting with members, offering assistance with issues ranging from account inquiries to general questions about the organization's offerings. Real Estate Brokers, while knowledgeable about properties and transactions, focus on facilitating sales and guiding clients in the real estate market rather than addressing member service inquiries. Escrow Coordinators deal with the specific processes involved in closing transactions and handling funds but are not typically involved in member inquiries. Training and Development Staff focus on the education and training of other employees rather than direct interaction with members regarding their needs or questions. Given these roles and responsibilities, Service Representatives are the most appropriate choice for responding to Member Services inquiries. Their direct engagement with members allows for effective communication and problem resolution.

3. Which stage in the intake process is primarily concerned with planning for future steps?

A. Budget Stage

B. Action Plan Stage

C. Affordability Stage

D. Income Stage

The Action Plan Stage is predominantly focused on planning for future steps in the intake process. This stage involves outlining specific actions, timelines, and resources that will be needed to achieve the individual's or family's goals regarding homeownership. During this phase, strategies are developed based on the information gathered in earlier stages, and it sets the foundation for how to proceed effectively toward achieving a successful purchase. In the Action Plan Stage, participants are encouraged to identify potential challenges and how to address them, designate responsibilities, and establish measurable outcomes. This planning is crucial, as it translates initial assessments into concrete actions that will guide the individual or family through the subsequent phases of the home-buying process. Effective planning in this stage ensures that all necessary components—such as budgeting, understanding affordability, and gathering income documentation—are addressed systematically, setting the stage for progress towards homeownership.

4. Which statement best defines income stability for a Wage Earner?

A. 12 months with the same employer

B. 24 months continuous employment with no gaps

C. 24 months with the same employer and small gaps are allowed

D. 12 months with only sporadic work history

Income stability for a wage earner is best defined by having a sustained employment history without interruptions, which allows for confidence in the individual's ability to maintain steady income over time. The requirement of 24 months of continuous employment with no gaps provides a strong indication that the wage earner has established a reliable source of income, demonstrating financial stability and dependability to lenders or financial institutions. This duration reflects a commitment to the job and may suggest that the individual possesses skills and competencies that keep them employed consistently. Shorter periods of employment or sporadic work history would typically raise concerns regarding the individual's income reliability and future earning potential. The lack of gaps reinforces the idea of financial predictability, making it a critical measure of income stability for assessing loan applications, mortgage eligibility, or other financial considerations.

5. Which document is required to verify the member's tax return submission?

- A. Bank Statements**
- B. Tax Account Summary**
- C. Tax Return Transcript**
- D. Financial Affidavit**

The Tax Return Transcript is the required document to verify the member's tax return submission. This document is issued by the IRS and provides a summary of the member's tax returns, including important information such as income, deductions, and tax liabilities. It serves as an official record that confirms what was reported to the IRS and can be used by lenders to assess the member's financial status accurately. Using a Tax Return Transcript ensures that the information provided by the member is validated against the IRS records, minimizing discrepancies that could arise from self-reported figures. This makes it a crucial document in the context of assessing eligibility for various loan programs, including those offered through NACA. Other documents, such as bank statements, tax account summaries, or financial affidavits, serve different purposes and may provide insight into the member's financial situation but do not specifically verify the submission of tax returns to the IRS as effectively as a Tax Return Transcript does.

6. What is the reserve requirement for purchasing a four-family duplex?

- A. Three months**
- B. Four months**
- C. Five months**
- D. Six months**

The reserve requirement for purchasing a four-family duplex is established to ensure that homeowners have sufficient financial resources to cover potential financial obligations, such as mortgage payments, in the event of unexpected circumstances like job loss or other financial hardships. A reserve requirement of six months means that the borrower must have enough funds set aside to cover six months' worth of mortgage payments, taxes, insurance, and other associated costs. This requirement is particularly important for multi-family properties, such as duplexes, because they can come with added complexities and responsibilities. Having a substantial reserve can provide a cushion that helps borrowers maintain their mortgage commitments, thus reducing the risk of default. Lenders often impose higher reserve requirements for these types of properties compared to single-family homes due to the increased risks perceived in multi-family investments. By requiring six months of reserves, lenders aim to promote financial stability for the borrower, and this aligns with prudent lending practices. Such requirements are designed to safeguard both the borrower and the lender, ensuring that the borrower is adequately prepared for future obligations and that the lender mitigates risks associated with financing these properties.

7. What must be requested before a bank application for a Condo/Co-op property?

A. The completed Condo/Co-op questionnaire

B. A valid credit report

C. A construction loan agreement

D. A seller's contribution form

When applying for financing for a Condo or Co-op property, it is essential to request the completed Condo/Co-op questionnaire. This document provides critical information about the property and the homeowners association (HOA) or co-op board. It typically includes details such as the financial health of the association, the rules and regulations governing the property, insurance coverage, and any pending litigation or special assessments. Lenders use this information to assess the risk involved in providing a mortgage for the property. If the association is financially stable and meets certain guidelines, it can significantly influence the lender's decision regarding the loan application. Therefore, obtaining this questionnaire is a fundamental step in the process, as it helps both the borrower and the lender understand the property's overall viability. The other options, while possibly relevant in different contexts, do not address the specific requirements set forth for securing a loan for a Condo or Co-op property. A valid credit report is necessary for evaluating the borrower's creditworthiness but is not specific to the property itself. A construction loan agreement pertains to new builds rather than existing condos or co-ops. Lastly, a seller's contribution form relates to the negotiations between the buyer and seller regarding closing costs but is not a prerequisite for the bank application.

8. What is included in the closing expenses for a Member?

A. Homeowner's insurance for the first month

B. PMI only

C. HOI escrow for 3 months

D. All taxes and insurance for the first year

The inclusion of HOI (Homeowner's Insurance) escrow for three months in closing expenses is correct because, during the closing process, lenders typically require that a portion of the homeowner's insurance premium be collected in advance. This funds the escrow account used to pay for the homeowner's insurance when it comes due. Including three months of HOI in the closing costs ensures that the insurance coverage is maintained without interruption and protects the lender's investment. This is a common practice, as it helps both the lender and the borrower manage the payment of insurance premiums. It also aligns with the understanding that a borrower is expected to demonstrate responsible financial management by ensuring that they have insurance coverage upon closing. In contrast, while homeowner's insurance for the first month, PMI (Private Mortgage Insurance) only, and all taxes and insurance for the first year could be relevant to different aspects of financing a home, they do not reflect the typical items that are categorized as closing expenses in the context of initial escrow requirements. Each of these options may cover important aspects of homeownership, but the escrow for three months of HOI is specifically associated with closing expenses aimed at maintaining immediate coverage.

9. NACA's maximum CLTV amounts can exceed 100% for purchases and for rehabs under what condition?

A. Only for private sector funding

B. Only if funds are given for down payment, closing costs, repairs, etc.

C. Only for public sector funding

D. None of the above

The maximum Combined Loan to Value (CLTV) amounts for purchases and rehabilitation loans can indeed exceed 100% primarily when funds are provided to cover necessary expenses like down payments, closing costs, and repairs. This condition is crucial for making homeownership accessible, especially for eligible borrowers who may not have sufficient cash reserves for these upfront costs. In this context, exceeding the standard 100% CLTV allows borrowers to finance not only the purchase price of the home but also critical additional costs that support the home's value and livability. This flexibility is fundamental to NACA's mission of promoting homeownership among low-to-moderate income individuals and families. The other options do not reflect the conditions under which CLTV can exceed 100%. Private sector funding and public sector funding have specific guidelines but do not inherently allow for exceeding the CLTV threshold without additional context directly related to covering essential costs. Thus, the correct choice focuses on the practical needs of borrowers who require comprehensive financial support.

10. What is the first step a member must take to qualify for construction financing through NACA?

A. Obtain seller contributions

B. Qualify for the desired PITI

C. Apply for a different lender's construction loan

D. Submit a condo/co-op questionnaire

To qualify for construction financing through NACA, the first essential step a member must undertake is to qualify for the desired PITI (Principal, Interest, Taxes, and Insurance). This qualification process is crucial because it establishes the member's capacity to manage the monthly payments associated with their construction financing. Understanding the member's financial situation, including income, debt, and credit history, is vital to determine the appropriate PITI level that can be supported. This assessment ensures that the member is not overextending themselves financially and can successfully sustain their mortgage obligations while the construction is underway. Qualifying for PITI is foundational, as it directly impacts the amount of financing available, the types of construction projects that can be pursued, and ultimately, the affordability of the new home once construction is complete. It sets the stage for all subsequent steps in the financing process, making it an essential first step for NACA members seeking construction loans.