

NACA Pre-Purchase Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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- 1. Which document is NOT required for bankruptcy that has been dismissed?**
 - A. Schedules A-J**
 - B. Summary of Schedules**
 - C. Discharge Letter**
 - D. Utility Bills**
- 2. What is the maximum Debt to Income Ratio (DTI) for standard members in the NACA program?**
 - A. 35%**
 - B. 40%**
 - C. 43%**
 - D. 45%**
- 3. By what percentage can non-taxable income be grossed up if housing expenses are more than 33% of income?**
 - A. 20%**
 - B. 25%**
 - C. 30%**
 - D. 35%**
- 4. What action is needed if a member has multiple 1099 employers and also files expenses?**
 - A. File taxes individually for each employer**
 - B. Combine all 1099 income for a total calculation**
 - C. Structure the file as cash for services**
 - D. Report only the highest 1099 earning**
- 5. Which of the following repayment plans is acceptable for student loan debt according to NACA guidelines?**
 - A. Standard Plan**
 - B. Income-Based Repayment Plan**
 - C. Graduated Plan**
 - D. Both Standard and Income-Based Repayment Plans**

6. What does Stage 10 Qualification involve?

- A. Reviewing Member qualifications only**
- B. Substituting non-qualifying reports to UW**
- C. Submitting files to underwriting**
- D. Inputting income calculations only**

7. Who is eligible to provide gift funds for a member?

- A. Real estate agents and brokers**
- B. Family members and close friends**
- C. Insurance companies**
- D. Home sellers**

8. What is considered the strongest compensating factor in qualifying for loans?

- A. Credit score improvement**
- B. Skin in the game**
- C. Previous loan history**
- D. Stable job history**

9. What lien does NACA take on the property?

- A. A financial lien**
- B. A soft lien**
- C. A hard lien**
- D. No lien**

10. What is a Tax Return Transcript primarily used for?

- A. To provide a summary of an individual's CPA recommendations**
- B. To verify tax returns were filed correctly**
- C. To show potential tax refunds anticipated**
- D. To summarize total assets and liabilities for loan applications**

Answers

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

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Explanations

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1. Which document is NOT required for bankruptcy that has been dismissed?

- A. Schedules A-J**
- B. Summary of Schedules**
- C. Discharge Letter**
- D. Utility Bills**

The correct answer is that utility bills are not required for a bankruptcy that has been dismissed. When a bankruptcy case is dismissed, specific documents are essential for the court and creditors to assess the situation, but utility bills are not part of the mandated documentation. In bankruptcy processes, Schedules A-J and the Summary of Schedules provide comprehensive financial information about the debtor's assets, liabilities, income, and expenses, which are crucial for evaluating the debtor's financial standing. These documents are standard requirements in bankruptcy filings. A discharge letter is significant in the context of bankruptcy; however, it's typically associated with a bankruptcy that has been completed successfully and results in the discharge of debts. Since a dismissed bankruptcy does not grant any legal discharge, a discharge letter would not be present in such cases. By contrast, utility bills, while they may provide insight into the debtor's regular expenses, are not mandated documents required by the court for dismissed bankruptcy, thus making them the correct choice for this question.

2. What is the maximum Debt to Income Ratio (DTI) for standard members in the NACA program?

- A. 35%**
- B. 40%**
- C. 43%**
- D. 45%**

In the NACA program, the maximum Debt to Income Ratio (DTI) for standard members is set at 40%. This means that when assessing a borrower's ability to repay their loan, their monthly debt obligations—including the projected mortgage payment—should not exceed 40% of their gross monthly income. A DTI of 40% is considered a balance that allows for responsible borrowing while ensuring that borrowers are not over-leveraged. Such a ratio helps in promoting sustainable homeownership by requiring that members maintain enough income for other essential expenses and living costs. Ensuring affordability is crucial for the long-term success of homeowners in the NACA program, which is designed to assist low to moderate-income individuals in achieving homeownership without falling into financial distress. This focus on a lower DTI is part of NACA's mission to empower community members with the means to secure housing while ensuring they can manage their financial responsibilities effectively.

3. By what percentage can non-taxable income be grossed up if housing expenses are more than 33% of income?

- A. 20%
- B. 25%**
- C. 30%
- D. 35%

In the context of mortgage lending, when a borrower has non-taxable income, lenders often allow that income to be "grossed up" to better reflect its real value for qualifying purposes. This gross-up can occur because non-taxable income does not incur federal income taxes, meaning that it has a higher effective value compared to taxable income. In this situation, if housing expenses exceed 33% of a borrower's income, lenders commonly grant a gross-up percentage of 25% for non-taxable income. This approach acknowledges that the borrower has significant housing expenses relative to their income, and the additional gross-up allows for a more favorable assessment of their financial capability. Thus, the choice of a 25% gross-up is based on the standard industry practice, reinforcing that lenders recognize the implications of high housing costs in relation to a borrower's earnings. Therefore, the gross-up percentage is specifically calibrated at this level to assist borrowers under particular financial circumstances in qualifying for mortgage financing.

4. What action is needed if a member has multiple 1099 employers and also files expenses?

- A. File taxes individually for each employer
- B. Combine all 1099 income for a total calculation
- C. Structure the file as cash for services**
- D. Report only the highest 1099 earning

The recommended action when a member has multiple 1099 employers and also files expenses is to structure the file as cash for services. This approach recognizes that the income reported on each 1099 acknowledges that the payments were made for services rendered. Rather than treating the income as separate entities or simply adding up the amounts without proper categorization, structuring the file in this manner allows for clarity and proper accounting of the income as it relates to the expenses incurred. By recognizing all the income as cash for services, the member can efficiently account for any related expenses and ensure that they are deducting the appropriate amounts. This understanding is crucial in accurately representing financial data when completing tax filings. It also helps in accurately tracking earnings across different employers, which is important for overall income reporting and tax liabilities. This method supports accurate accounting practices, ensuring that income and expenses are properly aligned, which can lead to more favorable tax treatment and avoidance of complications that might arise from misreporting. With this structuring, it also becomes easier to demonstrate the professional nature of the income to tax authorities.

5. Which of the following repayment plans is acceptable for student loan debt according to NACA guidelines?

- A. Standard Plan**
- B. Income-Based Repayment Plan**
- C. Graduated Plan**
- D. Both Standard and Income-Based Repayment Plans**

Under NACA guidelines, both the Standard Plan and Income-Based Repayment Plan are recognized as acceptable repayment plans for student loan debt. The Standard Plan typically involves fixed monthly payments over a 10-year term, making it straightforward for assessing the borrower's ability to repay. The Income-Based Repayment Plan adjusts monthly payments according to the borrower's income and family size, which can provide relief if the borrower is facing financial difficulties. While the Graduated Plan is a common option that starts with lower payments that gradually increase, it may not be as consistent in reflecting the borrower's current financial situation since it assumes an increase in income over time. Hence, it may not align with NACA's criteria for evaluating a borrower's capacity to manage their debt effectively. This is why the combination of the Standard Plan and Income-Based Repayment Plan is deemed preferable, as they both ensure stable repayment approaches adaptable to different financial circumstances.

6. What does Stage 10 Qualification involve?

- A. Reviewing Member qualifications only**
- B. Substituting non-qualifying reports to UW**
- C. Submitting files to underwriting**
- D. Inputting income calculations only**

Stage 10 Qualification involves submitting files to underwriting, which is a critical step in the mortgage process. In this stage, all relevant documentation and information regarding a borrower's financial position, credit history, and the property itself are compiled and forwarded to the underwriting team. This submission allows underwriters to assess the risk associated with the mortgage application and determine if it meets the necessary guidelines and requirements for approval. When files are submitted to underwriting, it includes all the necessary data such as income documentation, asset verification, credit reports, and details about the property being purchased. Underwriters will review this information comprehensively to ensure that the borrower qualifies for the loan based on established lending criteria and policies. The other options do not reflect the comprehensive nature of Stage 10 Qualification. Reviewing member qualifications is part of the process but is not the sole focus of this stage. Substituting non-qualifying reports to underwriting would generally reflect a workaround that is not standard practice in the qualification process, while inputting income calculations only addresses just one aspect of the full underwriting submission, overlooking other critical components of the borrower's financial profile and the property.

7. Who is eligible to provide gift funds for a member?

- A. Real estate agents and brokers
- B. Family members and close friends**
- C. Insurance companies
- D. Home sellers

Gift funds refer to monetary contributions that are provided to help a member with the purchase of a home, often to cover down payments or closing costs. The eligibility criteria for these funds typically align with the broader understanding of familial relationships and personal connections in financial transactions. Family members and close friends are considered eligible sources for gift funds due to their personal relationships with the member. This allows for a supportive network that can assist in the financial responsibilities of home buying. The intention behind allowing such contributions from family and friends is grounded in the understanding that purchasing a home can be a significant financial burden, and support from loved ones can facilitate this process. On the other hand, sources like real estate agents, insurance companies, or home sellers do not fit within the traditional parameters of gift funding eligibility, as these entities are typically involved in professional or transactional relationships rather than personal ones. Their financial contributions could create conflicts of interest or raise concerns about the source of funds, which is why they are not considered eligible.

8. What is considered the strongest compensating factor in qualifying for loans?

- A. Credit score improvement
- B. Skin in the game**
- C. Previous loan history
- D. Stable job history

The strongest compensating factor in qualifying for loans is often considered to be "skin in the game." This term refers to the borrower's investment in the loan, typically represented by a down payment or equity in the property. When borrowers have a significant financial stake in the property, it demonstrates their commitment to the investment and decreases the lender's risk. This is because borrowers with "skin in the game" are more likely to make timely payments and maintain the property in good condition, leading to better overall loan performance. Having financial investment helps to reassure lenders that the borrower is unlikely to default, even in challenging circumstances. It shows that the borrower is taking on risk alongside the lender, which can help secure approval for loans, even if other financial factors might raise concern. While credit score improvement, previous loan history, and stable job history are all important factors in a borrower's profile, they do not evoke the same level of inherent commitment as having a substantial investment in the property. A good credit score might reflect past financial responsibility, previous loan history might indicate reliability in repayment, and stable job history can signal consistent income, but none of these factors provide the direct financial commitment that "skin in the game" does. Hence, when lenders assess a loan application,

9. What lien does NACA take on the property?

- A. A financial lien
- B. A soft lien**
- C. A hard lien
- D. No lien

NACA takes a soft lien on the property, which means that while NACA has a financial interest in the property, the lien is not the same as a traditional hard lien. A soft lien typically refers to a lien that is secondary to other financial obligations on the property. This is significant because it allows homeowners to potentially step over the hurdle of multiple liens or financial claims on their property while benefiting from NACA's services. A soft lien does not affect the primary financial responsibilities homeowners have, which may allow them greater flexibility with their existing debts. This type of lien is particularly relevant in NACA's context as it supports the organization's goal of helping people, especially those who might be struggling financially, attain homeownership without the full burden that might come from a traditional hard lien arrangement. The consideration of other lien types highlights the unique approach NACA takes in ensuring that assistance is provided in a manner that does not exacerbate the financial challenges faced by the homeowners.

10. What is a Tax Return Transcript primarily used for?

- A. To provide a summary of an individual's CPA recommendations
- B. To verify tax returns were filed correctly**
- C. To show potential tax refunds anticipated
- D. To summarize total assets and liabilities for loan applications

A Tax Return Transcript is primarily utilized to verify that tax returns have been filed correctly with the Internal Revenue Service (IRS). This document includes most line items from the original tax returns as submitted, which can be critical for lenders or financial institutions when determining an applicant's income and overall financial stability. When it comes to financial transactions, especially in contexts like applying for a mortgage or financial aid, verifying the accuracy of an individual's reported income is essential. The Tax Return Transcript serves as a reliable source to ensure that the information provided in a loan application or financial inquiry matches what the IRS has on record. This verification is vital for assessing an applicant's eligibility for loans or any financial assistance. The other options do not accurately reflect the primary use of a Tax Return Transcript. For instance, the first option relates more to personal financial advice, while the alternatives regarding tax refunds or asset summaries pertain to different financial documents or purposes. Thus, the use of a Tax Return Transcript is specifically geared towards ensuring that the reported tax information is accurate and in alignment with IRS records.

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://nacaprepurchase.examzify.com>

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

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