

# National and UST Mortgage 1 Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

- 1. What does RESPA stand for?**
  - A. Real Estate Settlement Procedures Act**
  - B. Real Estate Standard Price Agreement**
  - C. Residential Equity Settlement Pricing Act**
  - D. Residential Estate Sale Procedures Agreement**
- 2. What does a promissory note represent in a real estate transaction?**
  - A. It is given by the lender to the buyer**
  - B. It is both a promise to repay the money borrowed with interest and evidence of the debt**
  - C. It is identical to a mortgage**
  - D. It replaces the security instrument**
- 3. Under the S.A.F.E. Act, what is a responsibility that is NOT required of a licensed loan originator?**
  - A. Not withholding or destroying records**
  - B. Making records available to borrowers**
  - C. Permitting interviews by state regulators**
  - D. Making records available to the state regulator**
- 4. What does risk layering in mortgage context refer to?**
  - A. Combining lower interest rates**
  - B. Combining high-risk loan features**
  - C. Improving borrower credit scores**
  - D. Integrating loan types**
- 5. What does "prepayment penalty" refer to in mortgage terms?**
  - A. A fee charged to borrowers for paying off their mortgage early**
  - B. A reward given to borrowers for paying off their mortgage early**
  - C. A penalty for late mortgage payments**
  - D. A fee for modifying the loan terms**

- 6. What is the role of the National Mortgage Licensing System (NMLS)?**
- A. It serves as a central database for licensing and registration of mortgage loan originators**
  - B. It provides financial advice to mortgage borrowers**
  - C. It determines the interest rates for mortgage loans**
  - D. It conducts inspections of mortgage properties**
- 7. What happens if the difference between disclosed and actual APR exceeds the threshold?**
- A. Re-disclosure is not typically required**
  - B. Requires an immediate closing of the transaction**
  - C. The lender must notify the borrower within one week**
  - D. The lender must re-disclose**
- 8. What distinguishes a fixed-rate mortgage from an adjustable-rate mortgage?**
- A. Fixed-rate mortgages have lower initial rates**
  - B. ARMs have constant interest rates**
  - C. Fixed-rate mortgages have a constant interest rate**
  - D. ARMs are always more affordable**
- 9. What is a balloon mortgage?**
- A. A mortgage that requires monthly payments that gradually increase**
  - B. A mortgage with a fixed interest rate for the entire term**
  - C. A mortgage that requires a large final payment after a series of smaller periodic payments**
  - D. A short-term loan that is typically paid off within a year**
- 10. What are seller concessions in a real estate transaction?**
- A. Financial benefits provided by the seller to the buyer to assist in covering closing costs**
  - B. Negotiations related to property repairs post-inspection**
  - C. Discounts on the property price offered by the seller**
  - D. Fees associated with real estate agent commissions**

## **Answers**

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

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## **Explanations**

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## 1. What does RESPA stand for?

- A. Real Estate Settlement Procedures Act**
- B. Real Estate Standard Price Agreement**
- C. Residential Equity Settlement Pricing Act**
- D. Residential Estate Sale Procedures Agreement**

RESPA stands for the Real Estate Settlement Procedures Act. This federal law was enacted to ensure transparency in the real estate settlement process by requiring disclosures about the costs of closing a mortgage. It aims to protect consumers by prohibiting kickbacks and referral fees that can increase the cost of settlement services. RESPA mandates that lenders provide borrowers with a Good Faith Estimate of the closing costs and requires them to provide a HUD-1 Settlement Statement at closing, detailing all the costs involved in the transaction. This legislation helps consumers to understand their mortgage and closing costs, thereby making informed decisions. The other options do not accurately reflect this essential federal law and its focus on real estate transactions.

## 2. What does a promissory note represent in a real estate transaction?

- A. It is given by the lender to the buyer**
- B. It is both a promise to repay the money borrowed with interest and evidence of the debt**
- C. It is identical to a mortgage**
- D. It replaces the security instrument**

A promissory note in a real estate transaction serves a critical dual function. It represents both the borrower's promise to repay the amount borrowed, typically to the lender, and it acts as evidence of the debt itself. This note outlines the terms of the loan, including the interest rate, repayment schedule, and the consequences of default. Essentially, it is a legally binding document that creates an obligation for the borrower to repay the loan as agreed. The other options do not capture the full essence of what a promissory note entails. For example, the first choice suggesting it is given by the lender to the buyer inaccurately reverses the roles—the borrower is the one who provides the note to the lender. Stating that it is identical to a mortgage is misleading since a promissory note and a mortgage serve different purposes; the former is about the promise to repay, while the latter is the security for that promise. Lastly, saying it replaces the security instrument is incorrect because while the note represents the debt, the mortgage serves as the collateral backing that debt. Together, they function in the larger framework of a real estate transaction, but they are not interchangeable.

**3. Under the S.A.F.E. Act, what is a responsibility that is NOT required of a licensed loan originator?**

**A. Not withholding or destroying records**

**B. Making records available to borrowers**

**C. Permitting interviews by state regulators**

**D. Making records available to the state regulator**

The responsibility that is not required of a licensed loan originator under the S.A.F.E. Act is making records available to borrowers. This is because while licensed loan originators are obliged to comply with regulations concerning record retention and oversight by state regulators, there isn't a specific requirement that mandates them to provide all records directly to borrowers. The other responsibilities highlighted are integral to the transparency and accountability of loan originators in their professional conduct. For instance, not withholding or destroying records is crucial for maintaining accurate and complete documentation of transactions, which helps ensure both compliance and the protection of consumer rights. Similarly, permitting interviews by state regulators and making records available to them is essential for allowing oversight and ensuring regulatory adherence within the mortgage industry. This safeguards the integrity of the lending process and promotes consumer trust.

**4. What does risk layering in mortgage context refer to?**

**A. Combining lower interest rates**

**B. Combining high-risk loan features**

**C. Improving borrower credit scores**

**D. Integrating loan types**

Risk layering in the mortgage context refers to the strategy of combining high-risk loan features to evaluate the overall level of risk associated with a mortgage application. This can occur when several factors that contribute to a higher likelihood of default are present at the same time. For example, a borrower may have a high debt-to-income ratio, a low credit score, and may be seeking a loan with an adjustable rate, all of which together significantly increase the lender's exposure to risk. In this context, the focus is on understanding how individual risk factors can compound to create a more precarious lending situation. For instance, if a borrower already has a low credit score, adding an adjustable-rate mortgage could further heighten concerns about their ability to sustain payments as rates fluctuate. Therefore, lenders assess these combined risk features carefully to make informed lending decisions. The other options, while related to mortgage lending, focus on different aspects. Lower interest rates and improving credit scores do not inherently relate to the concept of layering risks, as those aspects can actually minimize risk rather than combine it. Similarly, integrating loan types pertains more to loan structure rather than assessing risk combinations.

**5. What does "prepayment penalty" refer to in mortgage terms?**

- A. A fee charged to borrowers for paying off their mortgage early**
- B. A reward given to borrowers for paying off their mortgage early**
- C. A penalty for late mortgage payments**
- D. A fee for modifying the loan terms**

A prepayment penalty refers to a fee charged to borrowers for paying off their mortgage early. This provision is included in certain mortgage agreements to protect lenders from the loss of interest income when borrowers pay off their loans ahead of schedule. If a borrower pays off the mortgage, whether by selling the home, refinancing, or making significant extra payments towards the principal, the lender may impose this fee as a way to recoup some of the lost interest revenue. Understanding this concept is crucial for borrowers to consider before entering into a mortgage agreement. It impacts decision-making regarding when to refinance or pay off a mortgage early. Knowledge of potential prepayment penalties empowers borrowers to make informed financial choices.

**6. What is the role of the National Mortgage Licensing System (NMLS)?**

- A. It serves as a central database for licensing and registration of mortgage loan originators**
- B. It provides financial advice to mortgage borrowers**
- C. It determines the interest rates for mortgage loans**
- D. It conducts inspections of mortgage properties**

The National Mortgage Licensing System (NMLS) plays a crucial role in the regulation of the mortgage industry by serving as a central database for the licensing and registration of mortgage loan originators. This system was established to enhance the accountability and transparency of mortgage professionals and to ensure that they meet the necessary qualifications and standards required by state and federal regulations. By maintaining comprehensive records of licensed mortgage loan originators, the NMLS helps to streamline the licensing process across different states, thereby promoting consistent regulation in the industry. This facilitates better oversight, allowing consumers to verify the credentials of mortgage professionals they may work with, which ultimately contributes to consumer protection and the integrity of the financial system. The other options provided do not accurately describe the primary functions of the NMLS. While some roles in the mortgage industry may involve giving financial advice, determining interest rates, or conducting inspections, these responsibilities fall outside the purview of the NMLS, which focuses specifically on licensing and regulatory compliance.

**7. What happens if the difference between disclosed and actual APR exceeds the threshold?**

- A. Re-disclosure is not typically required**
- B. Requires an immediate closing of the transaction**
- C. The lender must notify the borrower within one week**
- D. The lender must re-disclose**

When the difference between the disclosed Annual Percentage Rate (APR) and the actual APR exceeds the established threshold, the lender is required to re-disclose the terms of the loan to the borrower. This requirement is in place to ensure transparency and protect consumers from potential misrepresentation of loan costs. The threshold for APR discrepancies is defined by regulation, and if the actual rate surpasses this threshold, it indicates that the borrower may not have the full picture of their loan's cost.

Re-disclosure provides the borrower with updated information about their loan terms, allowing them to make informed decisions. This requirement emphasizes the importance of accuracy in loan documentation and the need for lenders to maintain clear communication with borrowers. By ensuring that any changes in the APR are promptly disclosed, the regulations help prevent surprises at closing and promote consumer confidence in the mortgage process.

**8. What distinguishes a fixed-rate mortgage from an adjustable-rate mortgage?**

- A. Fixed-rate mortgages have lower initial rates**
- B. ARMs have constant interest rates**
- C. Fixed-rate mortgages have a constant interest rate**
- D. ARMs are always more affordable**

A fixed-rate mortgage is characterized by having a constant interest rate throughout the life of the loan. This means that the monthly principal and interest payments remain the same, providing predictability and stability for the borrower. This is particularly advantageous for long-term financial planning, as homeowners can budget their expenses knowing that their mortgage payment will not change due to fluctuations in interest rates. In contrast, an adjustable-rate mortgage (ARM) typically has an initial period in which the interest rate is lower, but this rate adjusts periodically based on changes in an underlying index. Therefore, the payments associated with ARMs can vary over time, which introduces uncertainty about future payments. This fundamental difference in stability and predictability is what sets fixed-rate mortgages apart from adjustable-rate mortgages.

## 9. What is a balloon mortgage?

- A. A mortgage that requires monthly payments that gradually increase
- B. A mortgage with a fixed interest rate for the entire term
- C. A mortgage that requires a large final payment after a series of smaller periodic payments**
- D. A short-term loan that is typically paid off within a year

A balloon mortgage is characterized by its structure of smaller regular payments that do not fully amortize the loan, culminating in a significant final payment at the end of the loan term. The majority of the payments throughout the loan's duration typically cover interest or a small portion of the principal, resulting in a remaining balance that is quite large when the term ends. This large final payment is known as the "balloon" payment, hence the name. This type of mortgage can be appealing for certain borrowers who expect to either refinance, sell, or otherwise address the final payment before it becomes due. Understanding this structure is crucial for borrowers to effectively manage their financial planning and obligations associated with such loans. Other choices describe different mortgage types or features that do not capture the essence of a balloon mortgage, making them less applicable in this context.

## 10. What are seller concessions in a real estate transaction?

- A. Financial benefits provided by the seller to the buyer to assist in covering closing costs**
- B. Negotiations related to property repairs post-inspection
- C. Discounts on the property price offered by the seller
- D. Fees associated with real estate agent commissions

Seller concessions refer specifically to financial benefits that sellers provide to buyers, which are intended to help cover closing costs associated with purchasing a home. These concessions can include contributions towards the buyer's prepaid expenses, such as property taxes, insurance, and loan origination fees, as well as other closing costs. By providing these concessions, sellers can make their property more appealing to potential buyers, particularly if the buyers encounter challenges in covering the upfront costs related to the transaction. In practice, seller concessions can help facilitate a smoother sales process, allowing more buyers to enter into contracts by alleviating some of the financial burdens that can be significant during the home-buying process. This practice is commonly seen in real estate markets where buyers may need assistance due to financial constraints or when the market is particularly competitive. In contrast, negotiations related to property repairs after inspections are distinct from seller concessions, as they pertain to ensuring the property is in good condition rather than covering costs directly associated with closing. Discounts on the property price might lower the purchasing cost overall but are not categorized as seller concessions, which specifically target closing expenses. Lastly, fees pertaining to real estate agent commissions relate to the services provided by agents and are typically not direct financial benefits to buyers from sellers.