

Nationwide Mortgage Licensing System and Registry (NMLS) 20 Hour SAFE Act Practice Test (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. How long does a company have to follow up with a customer who is on the National Do Not Call Registry after an inquiry?**
 - A. One month**
 - B. Two months**
 - C. Three months**
 - D. Indefinitely**
- 2. What document does the applicant sign to authorize the release of credit and employment information?**
 - A. Uniform Residential Loan Application**
 - B. Equal Credit Opportunity Act Disclosure**
 - C. Certification and Authorization Form**
 - D. Good Faith Estimate**
- 3. What is the debt limit on a reverse mortgage?**
 - A. There is no limit to the debt**
 - B. 80% of the market value of the home**
 - C. 90% of the market value of the home**
 - D. 100% of the market value of the home**
- 4. What term describes a deposit held by the seller's real estate broker, where commissions are deducted before forwarding the remainder?**
 - A. Remainder payments**
 - B. Contingent payments**
 - C. Third party deposits**
 - D. Excess deposits**
- 5. Which loan type is specifically designed to assist senior citizens with converting home equity into cash?**
 - A. Reverse Mortgage**
 - B. Bridge Loan**
 - C. Conventional Mortgage**
 - D. Hard Money Loan**

6. Under which law was the Mortgage Loan Originator Compensation Rule first drafted?

- A. Gramm-Leach-Bliley Act**
- B. Dodd-Frank Act**
- C. Community Reinvestment Act**
- D. Sarbanes-Oxley Act**

7. What does the phrase "cost of acquiring an equally desirable substitute property" refer to in appraisals?

- A. Appraisal by replacement cost**
- B. The principle of market comparables**
- C. The principle of substitution**
- D. The principle of investment value**

8. Which mortgage loan type is designed to experience negative amortization in the early years?

- A. Interest-only ARMs**
- B. Graduated payment mortgages**
- C. Growth equity mortgages**
- D. Shared appreciation mortgages**

9. Which data is NOT collected for HMDA monitoring?

- A. Sex**
- B. Family size**
- C. National origin**
- D. Race**

10. What components are included in the initial monthly payment shown in the Summary of Your Loan section?

- A. Principal and interest only**
- B. Principal, interest, and property taxes**
- C. Principal, interest, and closing costs**
- D. Principal, interest, and mortgage insurance**

Answers

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

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Explanations

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1. How long does a company have to follow up with a customer who is on the National Do Not Call Registry after an inquiry?

- A. One month**
- B. Two months**
- C. Three months**
- D. Indefinitely**

The correct answer is three months because the Telephone Consumer Protection Act (TCPA) and related regulations specify that telemarketers can call individuals on the National Do Not Call Registry if they have an established business relationship or if the consumer has given prior express consent to receive such calls. In cases where a customer has made an inquiry, the company is permitted to follow up with that customer for a period of three months from the date of the inquiry. This time frame allows businesses to maintain communication with potential customers while respecting the wishes of those who wish to avoid unsolicited calls. This regulation is designed to balance consumer privacy with legitimate follow-up communication in response to consumer inquiries, ensuring that companies can provide customer service without infringing on the desires of consumers to be left undisturbed if they have opted out of marketing communications.

2. What document does the applicant sign to authorize the release of credit and employment information?

- A. Uniform Residential Loan Application**
- B. Equal Credit Opportunity Act Disclosure**
- C. Certification and Authorization Form**
- D. Good Faith Estimate**

The correct answer is the Certification and Authorization Form, which is a document specifically designed to grant permission for the release of sensitive information, such as credit and employment details. This form is crucial in the mortgage application process because it allows lenders to access the applicant's credit profile and verify employment history, which are key factors in assessing loan eligibility and risk. By signing the Certification and Authorization Form, applicants provide informed consent for the lender to obtain their credit report and contact their employer for verification purposes. This step is vital for ensuring compliance with regulatory requirements and for the lender's ability to make an informed decision regarding the loan application. Other documents, such as the Uniform Residential Loan Application and the Good Faith Estimate, serve different purposes in the mortgage process, focusing either on collecting complete loan application information or providing estimates of the costs involved in the loan, respectively. The Equal Credit Opportunity Act Disclosure ensures that applicants are informed of their rights under federal law, but does not include authorization for accessing their personal information.

3. What is the debt limit on a reverse mortgage?

- A. There is no limit to the debt
- B. 80% of the market value of the home
- C. 90% of the market value of the home
- D. 100% of the market value of the home**

In the context of reverse mortgages, the debt limit essentially refers to the amount that can be borrowed against the equity in a home. With a reverse mortgage, homeowners can convert a portion of their home equity into loan proceeds, which do not need to be repaid until the homeowner moves out, sells the house, or passes away. The correct understanding is that a reverse mortgage allows homeowners to borrow against the full market value of the home, within certain limits determined by the lender and federal guidelines. This means that it is possible for the amount borrowed to reach up to 100% of the home's market value, depending on various factors including the borrower's age, the interest rate, and the home's appraised value. With that understanding, asserting that the debt limit can go up to 100% of the market value of the home aligns with how reverse mortgages function. The nature of these loans is that they do not have to be repaid until specific conditions are met, which differentiates them from traditional mortgages that have set limits based on a percentage of the home's value. In summary, reverse mortgages do allow for borrowing against the total value of the home, confirming that the debt limit can reach up to 100% of the market value,

4. What term describes a deposit held by the seller's real estate broker, where commissions are deducted before forwarding the remainder?

- A. Remainder payments
- B. Contingent payments
- C. Third party deposits
- D. Excess deposits**

The term that describes a deposit held by the seller's real estate broker, where commissions are deducted before forwarding the remainder, is known as an "excess deposit." This term indicates that the deposit exceeds the necessary fees, such as the broker's commission, and implies that any surplus amount is managed before being passed on to the appropriate party. In real estate transactions, the handling of deposits is critical, as it can relate to how the funds are distributed and what obligations are met prior to the finalization of the sale. Understanding this terminology helps clarify the processes involved in real estate transactions and the financial relationships between sellers, brokers, and buyers. Other terms listed, like contingent payments or third party deposits, do not accurately reference the situation where a broker deducts fees from a seller's deposit. These terms have different connotations and usages within the context of real estate and finance.

5. Which loan type is specifically designed to assist senior citizens with converting home equity into cash?

- A. Reverse Mortgage**
- B. Bridge Loan**
- C. Conventional Mortgage**
- D. Hard Money Loan**

The loan type specifically designed to assist senior citizens with converting home equity into cash is the reverse mortgage. This financial product enables homeowners, typically aged 62 and older, to access a portion of their home's equity without the obligation to make monthly mortgage payments. Instead, the loan is repaid when the borrower sells the home, moves out, or passes away. Reverse mortgages can provide seniors with additional income during retirement, allowing them to cover living expenses or healthcare costs without needing to sell their homes. This way, they can maintain ownership of their property while still benefiting from its value. In contrast, other loan types like a bridge loan are short-term loans meant to bridge the gap between the sale of one property and the purchase of another. A conventional mortgage is a standard home loan that requires regular monthly payments and is not tailored for equity conversion. Hard money loans are asset-based loans where the borrower receives funds secured by real estate collateral, typically used for short-term financing needs rather than for converting home equity for seniors.

6. Under which law was the Mortgage Loan Originator Compensation Rule first drafted?

- A. Gramm-Leach-Bliley Act**
- B. Dodd-Frank Act**
- C. Community Reinvestment Act**
- D. Sarbanes-Oxley Act**

The Mortgage Loan Originator Compensation Rule was first drafted under the Dodd-Frank Act. This legislation, enacted in response to the 2008 financial crisis, included several provisions aimed at reforming the financial industry and enhancing consumer protection in the mortgage market. One of the key objectives of the Dodd-Frank Act was to address the compensation structures of mortgage loan originators, aiming to eliminate conflicts of interest that could lead to predatory lending practices. This specific rule was implemented to ensure that mortgage loan originators are compensated based on the services they provide rather than on the interest rate or other factors that could incentivize them to act against the best interests of the consumer. The Dodd-Frank Act established the framework for this regulation, which emphasizes transparency and fairness in mortgage lending practices.

7. What does the phrase "cost of acquiring an equally desirable substitute property" refer to in appraisals?

- A. Appraisal by replacement cost**
- B. The principle of market comparables**
- C. The principle of substitution**
- D. The principle of investment value**

The phrase "cost of acquiring an equally desirable substitute property" directly aligns with the principle of substitution in the context of appraisals. This principle asserts that a buyer will not pay more for a property than it would cost to purchase a similar property that offers equal desirability and utility. In essence, it establishes a benchmark for determining property value, suggesting that if a property is priced higher than alternative comparable options, the buyer will likely pursue those alternatives instead. By highlighting the cost of acquiring an equally desirable substitute, the principle of substitution underscores the importance of market competition in real estate valuation. Buyers assess properties against others in the same market; thus, if one property is seen as overpriced compared to alternatives, it may remain unsold for a longer period, which points to why understanding this principle is essential for an accurate appraisal. The other options pertain to different valuation methods or principles that do not directly relate to this specific phrase. Appraisal by replacement cost involves calculating the cost to replace the property with a similar one, the principle of market comparables emphasizes assessing property values based on sales of similar properties, and the principle of investment value relates to the value of a property to a specific investor based on their unique criteria.

8. Which mortgage loan type is designed to experience negative amortization in the early years?

- A. Interest-only ARMs**
- B. Graduated payment mortgages**
- C. Growth equity mortgages**
- D. Shared appreciation mortgages**

The mortgage loan type that is specifically designed to experience negative amortization in the early years is the graduated payment mortgage. This type of loan allows the borrower to start with lower initial payments that gradually increase over time. Since the payment increases are structured to be lower than the interest accrued in the early years, this results in negative amortization, where the loan balance grows instead of decreases. In the graduated payment mortgage, the initial payments may not cover the full interest, which can lead to an increase in the principal amount owed, thereby providing borrowers with lower payments initially, which may be attractive for borrowers who expect an increase in income over time. This structure is particularly suitable for those who may be starting out in their careers or have limited cash flow in the short term. Other loan types do not specifically incorporate a design for negative amortization in this way. Interest-only ARMs allow borrowers to pay only interest for a set period, but this does not inherently cause negative amortization unless the payment structure changes unfavorably later. Growth equity and shared appreciation mortgages have different frameworks focused on equity sharing or appreciation, rather than on structuring payments to intentionally create negative amortization.

9. Which data is NOT collected for HMDA monitoring?

- A. Sex
- B. Family size**
- C. National origin
- D. Race

The data that is not collected for the Home Mortgage Disclosure Act (HMDA) monitoring is family size. HMDA primarily focuses on data that helps ensure fair lending practices and includes information about demographic factors that may influence lending decisions. Specifically, it collects data on sex, national origin, and race, all of which are essential for evaluating whether lending institutions are serving the housing needs of their communities without discrimination. Family size, while potentially relevant to a borrower's financial situation, is not a demographic marker that HMDA specifically tracks. The HMDA's emphasis is on understanding the potential disparities in lending based on protected characteristics, and family size does not fall within that framework. Consequently, this highlights the primary goal of HMDA—to monitor and reduce discrimination in lending practices based on the established demographic categories.

10. What components are included in the initial monthly payment shown in the Summary of Your Loan section?

- A. Principal and interest only
- B. Principal, interest, and property taxes
- C. Principal, interest, and closing costs
- D. Principal, interest, and mortgage insurance**

The correct answer includes principal, interest, and mortgage insurance as components of the initial monthly payment. When assessing the monthly payment for a mortgage, it typically consists of several factors that go beyond just the principal and interest. Mortgage insurance is often required when a borrower puts down less than 20% on a home loan. This insurance protects the lender in case of default, thereby allowing borrowers with smaller down payments to access home financing. In addition to the mortgage insurance, the monthly payment incorporates the principal amount of the loan and the interest charged on that principal, all critical elements in determining the total cost of a mortgage. It's important to note that while property taxes and closing costs can be significant in the home buying process, they do not typically form part of the monthly payment calculation in the context mentioned in this question. Property taxes may be collected separately through an escrow account, and closing costs are usually paid upfront at the time of closing rather than spread out over the life of the loan. This distinction is crucial for understanding how different costs contribute to the overall financial obligation of a mortgage.

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://nmls20hrssafe.examzify.com>

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

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