

Nationwide Mortgage Licensing System (NMLS) Practice Exam Sample Study Guide



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SAMPLE

Questions

- 1. What does the term "underwriting" refer to in the mortgage process?**
 - A. The evaluation of the risk of lending**
 - B. The act of securing the property**
 - C. The calculation of the buyer's credit score**
 - D. The final approval of the loan**
- 2. What does the term 'appraisal price' typically refer to in real estate transactions?**
 - A. The market value of the home**
 - B. The price at which the home is sold**
 - C. The amount the bank is willing to lend**
 - D. The buyer's financial capability**
- 3. A shrubbery hedge is an example of which type of title impediment?**
 - A. Encumbrance**
 - B. Easement**
 - C. Entitlement**
 - D. Acceptable title impediment**
- 4. Alimony payments must continue to be received for how long after the application date if they are to be included as income?**
 - A. 10 months**
 - B. 2 years**
 - C. 3 years**
 - D. 4 years**
- 5. Which of the following is not considered a part of the "loan origination process"?**
 - A. Gathering financial information from clients**
 - B. Assessing creditworthiness for loan approval**
 - C. Processing loan payments**
 - D. Preparing loan applications**

- 6. What is the "loan estimate" form?**
- A. A document that outlines the lender's business practices**
 - B. A form used for applying for a mortgage**
 - C. A document provided to borrowers that outlines the terms and costs of a mortgage**
 - D. A notification of mortgage approval**
- 7. How many hours of continuing education are required annually for mortgage licensing?**
- A. 8 hours every year**
 - B. 14 hours every year**
 - C. 14 hours every 2 years**
 - D. 20 hours every 2 years**
- 8. The term "20 basis points" expressed as a percentage is:**
- A. 0.2%**
 - B. 0.20%**
 - C. 2.00%**
 - D. 20.00%**
- 9. Which of the following is NOT a benefit of an FHA loan?**
- A. Favorable interest rates**
 - B. Low down payment**
 - C. No monthly mortgage insurance**
 - D. Assumable**
- 10. Which of the following methods of disclosure does NOT meet the requirements of the Equal Credit Opportunity Act (ECOA)?**
- A. E-mail**
 - B. Mailed letter**
 - C. Telephone**
 - D. Faxed letter**

Answers

SAMPLE

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

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Explanations

1. What does the term "underwriting" refer to in the mortgage process?

- A. The evaluation of the risk of lending**
- B. The act of securing the property**
- C. The calculation of the buyer's credit score**
- D. The final approval of the loan**

In the mortgage process, "underwriting" refers specifically to the evaluation of the risk associated with lending money to a borrower. This process involves assessing several factors, including the borrower's credit history, income, employment stability, and the overall financial situation to determine whether they are a suitable candidate for a loan and what terms would be appropriate. Underwriters analyze these factors to ensure that the lender is making a well-informed decision that balances the risk of default against the opportunity for profit. They also review the property being financed to confirm its value and ensure it meets the lender's requirements. This comprehensive risk assessment is crucial for making lending decisions and helps protect the lender's investment. The other options refer to different parts of the mortgage process. Securing the property involves obtaining a lien on the property being financed, calculating the credit score is part of the borrower's preliminary evaluations but not the underwriting process itself, and the final approval of the loan typically occurs after underwriting has assessed the risk and deemed the borrower acceptable.

2. What does the term 'appraisal price' typically refer to in real estate transactions?

- A. The market value of the home**
- B. The price at which the home is sold**
- C. The amount the bank is willing to lend**
- D. The buyer's financial capability**

The term 'appraisal price' in real estate transactions typically refers to the market value of the home as determined by a licensed appraiser. This assessment is a critical aspect of the buying and financing process, as the appraisal helps establish a home's value based on various factors, including the property's condition, location, and comparable sales in the area. Appraisers use standardized methods to evaluate the home and provide an impartial estimate of its value, which lenders often rely on to inform their lending decisions. If the appraisal price is lower than the agreed-upon sale price, this can lead to challenges in securing a mortgage, as lenders generally will not lend more than the property's appraised value. In contrast, while the price at which the home is sold is important, it does not necessarily reflect the property's appraised value—the sale price can vary based on negotiations and market trends. The amount a bank is willing to lend is typically influenced by both the appraisal and the buyer's financial situation, rather than being defined as the appraisal price itself. Lastly, the buyer's financial capability pertains to their ability to afford the home and secure financing, which is distinct from the valuation of the property itself.

3. A shrubbery hedge is an example of which type of title impediment?

A. Encumbrance

B. Easement

C. Entitlement

D. Acceptable title impediment

A shrubbery hedge is typically viewed as a form of acceptable title impediment because it does not prevent the transfer of property ownership or significantly impede the use of the property. Acceptable title impediments refer to minor issues related to property titles that do not detract from the overall value or usability of a property. A shrubbery hedge can be seen as a property enhancement or boundary marker rather than a legal issue. In contrast, encumbrances generally signify a claim, liability, or restriction on the property that can affect ownership rights, such as mortgages or liens. An easement is a specific legal right to use a part of someone else's property for a certain purpose, which can have more significant implications for property use. Entitlement relates to legal rights or permissions associated with property ownership, and may not be applicable in the context described. By understanding that a shrubbery hedge is a minor impediment that is widely accepted and typically does not create legal complications, we can see why identifying it as an acceptable title impediment is the most accurate choice.

4. Alimony payments must continue to be received for how long after the application date if they are to be included as income?

A. 10 months

B. 2 years

C. 3 years

D. 4 years

To include alimony payments as income in a mortgage application, they must be verifiably received for a minimum duration following the application date. This requirement ensures that the borrower has a stable and consistent source of income, which is crucial in determining their ability to repay the mortgage loan. The guideline specifies that alimony payments need to be received for at least three years from the application date. This period allows lenders to assess the sustainability of the income source, as alimony can sometimes be temporary and subject to change. By requiring a three-year verification, lenders can make more informed decisions about the borrower's financial stability and reliability regarding monthly mortgage payments.

5. Which of the following is not considered a part of the “loan origination process”?

- A. Gathering financial information from clients**
- B. Assessing creditworthiness for loan approval**
- C. Processing loan payments**
- D. Preparing loan applications**

The loan origination process primarily involves activities that lead to the creation of a new loan. This includes gathering financial information from clients, assessing their creditworthiness, and preparing loan applications, as these actions directly contribute to evaluating a borrower's eligibility for a loan. Processing loan payments, however, is a function that occurs after a loan has been originated. It pertains to the management of ongoing payments made by the borrower on an existing loan, rather than the initial steps taken to originate that loan. Thus, it is not part of the loan origination process, making it the correct answer. Understanding this distinction is key in comprehending the different stages involved in mortgage lending.

6. What is the “loan estimate” form?

- A. A document that outlines the lender's business practices**
- B. A form used for applying for a mortgage**
- C. A document provided to borrowers that outlines the terms and costs of a mortgage**
- D. A notification of mortgage approval**

The loan estimate form is a crucial document in the mortgage lending process, specifically designed to provide borrowers with clear information about the terms and costs associated with a mortgage loan. It is required by the Truth in Lending Act and the Real Estate Settlement Procedures Act, and it must be provided to the borrower within three business days of their mortgage application. This form includes essential details such as the loan amount, interest rate, monthly payments, and estimated closing costs, allowing borrowers to understand the financial implications of the loan they are considering. Its purpose is to promote transparency and help borrowers make informed decisions by enabling them to compare different loan offers from various lenders. Other options, such as a document outlining the lender's business practices or a form for applying for a mortgage, do not accurately capture the intent and function of the loan estimate. Similarly, a notification of mortgage approval pertains to a later stage in the mortgage process, whereas the loan estimate is provided much earlier to assist borrowers in evaluating their options before committing to a specific loan product.

7. How many hours of continuing education are required annually for mortgage licensing?

- A. 8 hours every year**
- B. 14 hours every year**
- C. 14 hours every 2 years**
- D. 20 hours every 2 years**

The requirement for continuing education for mortgage licensing is 8 hours annually. This aligns with the regulations set forth by the Nationwide Mortgage Licensing System (NMLS), which mandates that licensed mortgage loan originators must complete continuing education to ensure that they remain knowledgeable about current industry standards, regulations, and practices. This 8-hour requirement typically includes a combination of specific topics such as federal law, state law, ethics, and non-traditional mortgage products. Ensuring compliance with this requirement is vital for maintaining an active mortgage license, as it helps professionals stay updated with the ever-evolving landscape of the mortgage industry. Other options listed, such as 14 hours every year, 14 hours every 2 years, and 20 hours every 2 years, do not accurately reflect the established guidelines by the NMLS regarding continuing education for mortgage professionals.

8. The term "20 basis points" expressed as a percentage is:

- A. 0.2%**
- B. 0.20%**
- C. 2.00%**
- D. 20.00%**

To determine what "20 basis points" represents in terms of percentages, it's essential to understand the conversion relationship between basis points and percentage points. One basis point is defined as one-hundredth of a percentage point, or 0.01%. Therefore, to convert basis points to a percentage, you would divide the number of basis points by 100. In this case, 20 basis points would be calculated as follows: $20 \text{ basis points} = 20 / 100 = 0.20\%$. This conversion helps in various financial contexts, especially in discussions about interest rates, fees, and investment returns, where precise changes in rates or fees can have significant implications. The correct choice reflects this accurate transformation of basis points into a percentage format, which is important for anyone working in finance or dealing with mortgages and loans.

9. Which of the following is NOT a benefit of an FHA loan?

- A. Favorable interest rates**
- B. Low down payment**
- C. No monthly mortgage insurance**
- D. Assumable**

The correct answer highlights a common misconception about FHA loans. While FHA loans offer several advantages, one of their defining features is the requirement for monthly mortgage insurance premiums, which borrowers must pay as part of their financing costs. This feature is designed to protect the lender in case the borrower defaults on the loan, given that FHA loans are generally offered to borrowers with less-than-perfect credit and lower down payments. Thus, while FHA loans provide favorable interest rates, low down payments, and are assumable by qualified buyers, they do not eliminate the requirement for monthly mortgage insurance, making option C the correct choice in this context. Understanding FHA loans involves knowing that the presence of mortgage insurance is a standard condition due to the low risk tolerance associated with these types of loans, contrasting with conventional loans where avoiding private mortgage insurance could be possible. This is an essential aspect of FHA financing that borrowers should consider when evaluating their mortgage options.

10. Which of the following methods of disclosure does NOT meet the requirements of the Equal Credit Opportunity Act (ECOA)?

- A. E-mail**
- B. Mailed letter**
- C. Telephone**
- D. Faxed letter**

The correct choice is based on the fact that the Equal Credit Opportunity Act (ECOA) requires creditors to provide written notice to applicants when adverse action is taken regarding their credit applications. While e-mail, mailed letters, and faxed letters are considered acceptable forms of delivering this required disclosure because they provide a written record that can be easily retained and referenced, the telephone does not provide the same level of documentation or permanence. Telephone communications can lead to misunderstandings and may not leave the applicant with any tangible proof of the information discussed. As such, relying on verbal communication fails to fulfill the intent of the ECOA, which is to ensure that consumers have clear and accessible documentation regarding their credit applications and any adverse actions that may occur.