

NMLS Laws and Regulations Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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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. 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.

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. 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!

Questions

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- 1. In a HECM loan, which item is the borrower required to pay?**
 - A. Principal**
 - B. Interest**
 - C. Mortgage Insurance**
 - D. HOA and Real Estate Taxes and Insurance**

- 2. What are the four components of an ARM loan?**
 - A. Index; Margin; Interest rate cap structure; Mutual interest rate period**
 - B. Index; Rate; Amortization; Payment Schedule**
 - C. Principal; Interest; Taxes; Insurance**
 - D. Index; Margin; Payment history; Equity share**

- 3. Under the SAFE Act, which professionals must be certified?**
 - A. Appraisers and inspectors**
 - B. Contract processors and underwriters**
 - C. Real estate agents**
 - D. Mortgage loan originator assistants**

- 4. Right of rescission does not apply to which type of property?**
 - A. Home purchases**
 - B. 2nd Home**
 - C. Rental**
 - D. Vacation Homes**

- 5. What is the maximum rescission period after closing?**
 - A. 3 days**
 - B. 3 months**
 - C. 3 years**
 - D. 5 years**

- 6. Which statement best describes a straw buyer as defined in the material?**
- A. A person who commits identity theft against the borrower**
 - B. A buyer who intends to purchase a property and occupy it**
 - C. A borrower who has not owned a primary residence in the past three years**
 - D. A buyer who accepts a fee for his or her Social Security number and other personal information on a mortgage application**
- 7. Which statement about subprime loans is most accurate in terms of documentation?**
- A. Limited Documentation**
 - B. Full Documentation**
 - C. No Documentation**
 - D. Verified Documentation**
- 8. How do you calculate rental income?**
- A. Total Rental Income x 75% - Monthly Mortgage Payment**
 - B. 75% of Rental Income minus Monthly Mortgage Payment**
 - C. Total Rental Income minus 50% - Monthly Mortgage Payment**
 - D. 100% of Rental Income minus Monthly Mortgage Payment**
- 9. According to the Truth-in-Lending Act (TILA), which of the following fees is EXCLUDED from the calculation of the annual percentage rate?**
- A. Hazard insurance**
 - B. Mortgage insurance premiums**
 - C. Wire transfer**
 - D. Prepaid interest**
- 10. What information is listed on the debt report?**
- A. Creditor's name**
 - B. Payment**
 - C. Date opened**
 - D. Balance**

Answers

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

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Explanations

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1. In a HECM loan, which item is the borrower required to pay?

A. Principal

B. Interest

C. Mortgage Insurance

D. HOA and Real Estate Taxes and Insurance

In a HECM, the borrower stays in control of the home and must keep up with the ongoing property charges to keep the loan in good standing. The loan itself is repaid when the borrower leaves the home or it's sold, so there aren't monthly principal or interest payments like with a traditional loan. The crucial ongoing obligations are paying real estate taxes, maintaining homeowners insurance, and staying current on any HOA dues. If these charges lapse, the lender can require repayment or even initiate foreclosure. Mortgage insurance is indeed required for HECMs, but it's a loan cost built into the program rather than a separate monthly obligation like taxes and insurance. So the borrower is required to pay HOA dues and property taxes and insurance.

2. What are the four components of an ARM loan?

A. Index; Margin; Interest rate cap structure; Mutual interest rate period

B. Index; Rate; Amortization; Payment Schedule

C. Principal; Interest; Taxes; Insurance

D. Index; Margin; Payment history; Equity share

In an adjustable-rate mortgage, the interest rate isn't fixed forever; it moves based on a benchmark index plus a lender's margin, and changes are governed by caps and how often the rate can adjust. The four components that define an ARM's rate and how it changes are: the index (the benchmark that drives movements), the margin (the lender's added percentage), the rate cap structure (limits on how much the rate can rise or fall), and the adjustment period (how often the rate can reset). The option that lists Index, Margin, Interest rate cap structure, and Mutual interest rate period aligns with these ARM-defining elements, with the last term referring to the adjustment period. The other choices mix in general loan terms (like principal/interest/taxes/insurance or amortization) that aren't specific to how ARMs function, or include items unrelated to rate adjustments.

3. Under the SAFE Act, which professionals must be certified?

- A. Appraisers and inspectors
- B. Contract processors and underwriters**
- C. Real estate agents
- D. Mortgage loan originator assistants

The main idea here is that the SAFE Act targets those who actually originate a mortgage loan. Certification (licensing/registration) under SAFE is required for mortgage loan originators—people who take the loan application or negotiate terms for compensation. This ensures they meet education, testing, and background-check standards and are overseen by the state (or NMLS system). Other professionals in or around the loan process aren't required to be SAFE-certified simply by virtue of their roles. Appraisers, inspectors, and real estate agents are licensed under their respective fields, not under the SAFE Act. Back-office roles like contract processors and underwriters do not perform the originator duties, so they aren't required to be certified under SAFE unless they're actually acting as a loan originator. So, the certification requirement defined by SAFE applies to mortgage loan originators, not to processing or underwriting staff, nor to appraisers, inspectors, or real estate agents.

4. Right of rescission does not apply to which type of property?

- A. Home purchases**
- B. 2nd Home
- C. Rental
- D. Vacation Homes

The main concept here is that the right of rescission under TILA applies only to loans secured by the borrower's principal dwelling. It does not apply to loans secured by properties that aren't the borrower's primary residence. Because of that, non-primary properties—such as a second home, a rental property, or a vacation home—do not carry a rescission right. So, among the options, the types that do not qualify for rescission are the non-primary dwellings: a second home, rental, and vacation home. A purchase of the borrower's primary residence would fall under the rescission rights, not outside of them. If the answer key lists a primary-home purchase as the one lacking rescission, that would be inconsistent with the rule, but the concept remains clear: rescission does not apply to non-primary properties.

5. What is the maximum rescission period after closing?

- A. 3 days
- B. 3 months
- C. 3 years**
- D. 5 years

The key idea is the right to rescind under TILA for loans secured by your primary dwelling. If you're taking out a refinance, a home equity loan, or a similar loan on the home you live in, you have a limited window to cancel after the loan is consummated and after you've received the required disclosures, including the Notice of Right to Cancel. That window lasts three days, specifically three business days, and it ends at midnight on the third business day after consummation. It does not apply to purchases, and it does not extend to years-long periods. So the maximum rescission period after closing for these types of loans is three days.

6. Which statement best describes a straw buyer as defined in the material?

- A. A person who commits identity theft against the borrower**
- B. A buyer who intends to purchase a property and occupy it**
- C. A borrower who has not owned a primary residence in the past three years**
- D. A buyer who accepts a fee for his or her Social Security number and other personal information on a mortgage application**

A straw buyer is someone who uses their own identity and personal information to obtain a mortgage on behalf of another person, usually in exchange for payment. The defining element is that this person provides the information on the loan application for money, effectively acting as the borrower to help someone else secure financing. The statement describing accepting a fee for his or her Social Security number and other personal information on a mortgage application matches this: it captures the compensated use of one person's identity to facilitate the loan. The other descriptions don't fit straw buyers: identity theft against the borrower involves stealing the borrower's information, not using the helper's own information; occupancy intentions or prior ownership history are not what defines a straw buyer.

7. Which statement about subprime loans is most accurate in terms of documentation?

- A. Limited Documentation**
- B. Full Documentation**
- C. No Documentation**
- D. Verified Documentation**

Subprime loans were often underwritten with less rigorous income and asset verification than prime loans. This limited documentation approach allowed lenders to approve loans for borrowers who could not provide full paperwork, speeding up the process and expanding access for those with weaker credit. Full documentation requires detailed proof of income, assets, and employment, which is more typical of prime underwriting. No documentation is rarely used because some proof of ability to repay is generally required, and "verified documentation" isn't a standard distinct category in this context. So, the statement that best fits subprime lending in terms of documentation is limited documentation.

8. How do you calculate rental income?

- A. Total Rental Income x 75% - Monthly Mortgage Payment**
- B. 75% of Rental Income minus Monthly Mortgage Payment**
- C. Total Rental Income minus 50% - Monthly Mortgage Payment**
- D. 100% of Rental Income minus Monthly Mortgage Payment**

When rental income is used to qualify for a loan, lenders don't take the full rents. They apply a vacancy/expense allowance and then subtract the debt service on the rental property. The standard approach is to take 75% of the gross rental income and subtract the monthly mortgage payment for that property. This gives the net rental income that can be added to the borrower's qualifying income. The 75% factor accounts for vacancies, maintenance, and other property costs, while the mortgage payment represents the debt service that reduces cash flow. Using 100% of rental income would overstate cash flow, and using a much smaller percentage would unduly understate it. So the correct method is to apply 75% to gross rents and then deduct the monthly mortgage payment.

9. According to the Truth-in-Lending Act (TILA), which of the following fees is EXCLUDED from the calculation of the annual percentage rate?

- A. Hazard insurance**
- B. Mortgage insurance premiums**
- C. Wire transfer**
- D. Prepaid interest**

Hazard insurance is excluded from the APR calculation because it is a cost for protecting the property (collateral) rather than a charge tied to obtaining or using credit. The Truth in Lending Act's finance charge includes interest, points, origination fees, and other costs directly associated with obtaining the loan, but insurance premiums for protecting the collateral fall outside that category. So while you must pay hazard insurance, that payment does not inflate the annual percentage rate. (Other charges like mortgage insurance premiums or prepaid interest are typically included in the finance charge, while some fees such as certain processing charges or wire transfers can vary by situation and are not universally excluded the way hazard insurance is.)

10. What information is listed on the debt report?

- A. Creditor's name**
- B. Payment**
- C. Date opened**
- D. Balance**

Debt reports identify each account by who it's owed to. The creditor's name is the key piece of information that tells you which debt corresponds to which lender, making it the most essential identifier on each line of the report. While other details like balance, date opened, and payment history may also appear, they support understanding the account after you know who the creditor is. So the creditor's name is the information that uniquely identifies the debt across the report.

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://nmlslawsregulations.examzify.com>

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

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