

NMLS LAWS AND REGULATIONS PRACTICE TEST (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

**VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE**

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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. How does child support and alimony affect the borrower's ability to obtain a loan?**
 - A. For payer: Child support is always counted as income
 - B. For Payee: Child support is not required to be counted as income - if used, the borrower must supply documentation, and there must be continuity of this income for 3 years
 - C. For payer: Child support is always counted as debt
 - D. For Payee: Child support is counted as income with no documentation
- 2. Which term describes the index rate prevailing at origination, plus the margin that will apply after the expiration of an introductory interest rate?**
 - A. Note Rate
 - B. Annual Percentage Rate
 - C. Fully Indexed Rate
 - D. Teaser Rate
- 3. Which definition describes packing in the context of mortgage lending?**
 - A. Including unrelated and unwanted insurance in the loan and making the borrower pay for it
 - B. Bundling only mortgage-related insurance with the loan at no extra cost
 - C. Providing insurance that the borrower explicitly requests
 - D. Reducing insurance coverage included in the loan
- 4. Which HOEPA disclosure occurs 3 days before closing?**
 - A. Borrower receives additional disclosure 3 days prior to closing
 - B. Disclosures provided at the time of application
 - C. Disclosures provided after closing
 - D. No disclosures are required
- 5. How do you calculate Front-end DTI/HER?**
 - A. Total housing expenses (PITI) / Gross monthly income
 - B. Gross monthly income / Total housing expenses (PITI)
 - C. PITI / Net monthly income
 - D. Total debt payments / Gross monthly income

- 6. For purchases, a borrower must have what duration of prepaid insurance policy to close?**
- A. Six months prepaid policy
 - B. One year prepaid policy
 - C. Two years prepaid policy
 - D. No prepayment required
- 7. What is the maximum VA loan origination fee?**
- A. 1%
 - B. 2%
 - C. 0%
 - D. 0.5%
- 8. Which entity is responsible for monitoring compliance with advertising rules?**
- A. HUD
 - B. FHA
 - C. FNMA
 - D. FTC
- 9. Which factors are NOT included when calculating DTI ratios?**
- A. Utility bills, car insurance, gas, food, etc.
 - B. Only count housing and what shows on the credit report
 - C. Mortgage payments and taxes
 - D. Car payments and student loans
- 10. If a lender turns a fraudulent file over to law enforcement authorities, a mortgage broker who submitted it could be arrested, tried and convicted. For committing loan fraud against the lender, what is the maximum sentence the broker could face?**
- A. Ten years in prison or a fine up to \$10,000.00 or both
 - B. Thirty years in prison, a fine up to one million (\$1,000,000.00) dollars or both
 - C. Twenty years in prison, a fine up to fifty thousand dollars (\$50,000.00) or both
 - D. Six months in prison, a fine up to ten thousand dollars \$10,000.00 or both

Answers

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

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Explanations

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1. How does child support and alimony affect the borrower's ability to obtain a loan?

- A. For payer: Child support is always counted as income
- B. For Payee: Child support is not required to be counted as income - if used, the borrower must supply documentation, and there must be continuity of this income for 3 years**
- C. For payer: Child support is always counted as debt
- D. For Payee: Child support is counted as income with no documentation

Income from child support or alimony isn't automatically counted in qualifying loan income. The key distinction is between who is the recipient and who is paying. For the borrower who receives child support or alimony, lenders don't have to count it as income, but they may count it if there is solid, documented evidence of a stable, ongoing payment and a reasonable expectation that it will continue. In practice this means providing the court order or divorce decree, payment history, and showing that the payments have continued for at least three years. This three-year continuity helps prove the income is reliable and predictable for the life of the loan. If the borrower is the payer of child support or alimony, those monthly obligations are treated as a recurring debt and included in the debt-to-income calculation, not as income. So the impact differs based on whether you receive or pay the support, and documentation plus continuity matter when counting such income.

2. Which term describes the index rate prevailing at origination, plus the margin that will apply after the expiration of an introductory interest rate?

- A. Note Rate
- B. Annual Percentage Rate
- C. Fully Indexed Rate**
- D. Teaser Rate

The fully indexed rate is the rate that will apply after the introductory period ends, calculated by taking the index rate in effect at origination and adding the loan's margin. This combination sets the baseline for future adjustments—the rate used if the introductory period expires immediately and the loan follows its typical adjustment schedule. Think of it as the true underlying rate builders use to determine future payments: the index value at closing plus the margin. It's not the teaser rate, which is just the temporary low starting rate, and it isn't the note rate or the APR, which are different concepts used for disclosure and terms. For example, if the index at origination is 3.0% and the margin is 2.75%, the fully indexed rate would be 5.75%, subject to any caps or adjustments defined in the loan.

3. Which definition describes packing in the context of mortgage lending?

- A. Including unrelated and unwanted insurance in the loan and making the borrower pay for it
- B. Bundling only mortgage-related insurance with the loan at no extra cost
- C. Providing insurance that the borrower explicitly requests
- D. Reducing insurance coverage included in the loan

Packing is the practice of loading a mortgage with additional, unrelated insurance products and charging the borrower for them, effectively increasing the loan amount and the borrower's payments without a clear, voluntary request for those products. In real-world terms, it means you're paying for insurance you didn't ask for, and the costs are folded into the loan balance and monthly payments, often hidden in the closing costs or finance charges. This is undesirable because it inflates the loan and obscures true costs, and regulators emphasize that borrowers should consent to and clearly see the costs of any added products. The other options describe scenarios where insurance is either not added without consent or is directly requested, which is not what packing entails.

4. Which HOEPA disclosure occurs 3 days before closing?

- A. Borrower receives additional disclosure 3 days prior to closing
- B. Disclosures provided at the time of application
- C. Disclosures provided after closing
- D. No disclosures are required

HOEPA requires a separate set of disclosures for high-cost mortgages, and these must be provided to the borrower at least three business days before closing. This pre-closing HOEPA disclosure explains that the loan is high-cost and lays out the terms and costs (such as the APR and the total points and fees) so the borrower has time to review, compare, or reconsider before committing. That's why the correct option is that the borrower receives an additional disclosure three days prior to closing. Disclosures at application come from general TILA/RESPA timing, not the HOEPA pre-closing notice; disclosures after closing aren't allowed for this purpose, and claiming none are required isn't correct.

5. How do you calculate Front-end DTI/HER?

- A. Total housing expenses (PITI) / Gross monthly income
- B. Gross monthly income / Total housing expenses (PITI)
- C. PITI / Net monthly income
- D. Total debt payments / Gross monthly income

Front-end DTI, or the housing expense ratio, measures how much of a borrower's income goes toward housing payments. The correct calculation uses total housing expenses, PITI (Principal, Interest, Taxes, and Insurance), divided by gross monthly income. This shows the portion of gross income consumed by housing costs, which lenders assess to gauge affordability. Why this is correct: it directly compares housing costs to gross income, providing a clear sense of whether the borrower can handle the monthly mortgage payment within their income. Why the other approaches don't fit: inverting the ratio would describe how many dollars of income exist per dollar of housing cost, which isn't the intended affordability measure. Using net monthly income ignores taxes and deductions that affect actual take-home pay. Including all debt payments would be the back-end DTI, not the front-end housing ratio.

6. For purchases, a borrower must have what duration of prepaid insurance policy to close?

- A. Six months prepaid policy
- B. One year prepaid policy**
- C. Two years prepaid policy
- D. No prepayment required

Coverage must be in force at closing and the premium for the first year should be prepaid. Lenders require a full year of homeowners insurance prepaid so the policy is effective from day one and to seed the escrow account that will pay the next 12 months of premiums (and taxes) without a lapse. This protects the lender's security and ensures the borrower won't have a gap in coverage right after closing. Six months prepaid could leave a gap in coverage before the first year is up, and two years prepaid is more than what's typically required. No prepayment would delay coverage until renewal, which could create a risky lapse in protection.

7. What is the maximum VA loan origination fee?

- A. 1%**
- B. 2%
- C. 0%
- D. 0.5%

A key idea here is that the lender's fee to origin the loan for a VA loan is limited. The VA sets a cap on the origination charge at 1% of the loan amount, so the maximum origination fee a lender may charge is 1%. This helps keep upfront costs predictable for veterans. It's important to distinguish this from the VA funding fee, which is a separate charge set by the VA and varies based on use, down payment, and other factors. While other closing costs can apply and some may be negotiable, the specific origination fee itself cannot exceed 1%.

8. Which entity is responsible for monitoring compliance with advertising rules?

- A. HUD
- B. FHA
- C. FNMA
- D. FTC**

Advertising rules are about consumer protection and truthful messaging. The Federal Trade Commission is the principal federal authority that ensures ads are honest, not misleading, and that any claims about rates, terms, or costs are supported. Lenders must present mortgage information clearly and avoid deceptive practices to comply with these standards. HUD, FHA, and FNMA focus on housing programs and loan origination or secondary markets, not on policing advertising claims. So, the entity that monitors compliance with advertising rules is the Federal Trade Commission.

9. Which factors are NOT included when calculating DTI ratios?

- A. Utility bills, car insurance, gas, food, etc.**
- B. Only count housing and what shows on the credit report
- C. Mortgage payments and taxes
- D. Car payments and student loans

DTI looks at how much of your gross monthly income is tied up in paying debts each month. It includes housing costs (mortgage or rent plus property taxes and homeowners insurance) and other periodic debt payments (auto loans, student loans, credit card minimums, alimony/child support). It does not count everyday living expenses like utilities, groceries, gas, and food, which are not debts. So the factors not included when calculating DTI are the living expenses such as utility bills, car insurance, gas, and food.

10. If a lender turns a fraudulent file over to law enforcement authorities, a mortgage broker who submitted it could be arrested, tried and convicted. For committing loan fraud against the lender, what is the maximum sentence the broker could face?

- A. Ten years in prison or a fine up to \$10,000.00 or both
- B. Thirty years in prison, a fine up to one million (\$1,000,000.00) dollars or both**
- C. Twenty years in prison, a fine up to fifty thousand dollars (\$50,000.00) or both
- D. Six months in prison, a fine up to ten thousand dollars \$10,000.00 or both

When a mortgage professional knowingly submits fraudulent loan documents to a lender, it triggers a serious federal crime: loan fraud against the lender. The law sets a high ceiling for penalties to deter this kind of deception, allowing a judge to impose both prison time and a large fine if warranted. The maximum described for this offense is a prison term of up to thirty years and a fine of up to a million dollars, or both. This reflects how federal statutes treat false statements or fraud aimed at lenders—the penalties can be severe to protect lenders and the lending system. In practice, actual sentences depend on the specifics of the case, but the question asks for the maximum, which is the combination of the longest term and the highest permissible fine.

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:

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

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