

REAL ESTATE AND MORTGAGE TERMS FOR STUDENTS PRACTICE TEST (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	15

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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. Which of the following statements best describes what is typically included in a monthly mortgage payment?**
 - A. Principal and interest (and possibly escrow for taxes and insurance).
 - B. Only interest; taxes paid separately.
 - C. Only principal; no escrow.
 - D. Insurance premium only.
- 2. What is a "right of rescission" in certain types of mortgage transactions, and when does it apply?**
 - A. The right of rescission is only for first-time homebuyers.
 - B. The right of rescission applies to all purchase mortgages.
 - C. The right to cancel certain refinances or home equity loans within a period after closing, typically under TILA; it does not apply to most purchase-money mortgages.
 - D. The right of rescission allows cancellation of any mortgage at any time.
- 3. What does LTV stand for and how is it used in mortgage decisions related to PMI?**
 - A. Loan-to-Value ratio; used to assess risk and trigger PMI removal thresholds.
 - B. Lease-to-Value ratio; used to set rent.
 - C. Loan Value ratio; used to rate lender risk.
 - D. Liquidity-to-Value ratio; used to measure cash on hand.
- 4. Which of the following is an example of a workout option to avoid foreclosure?**
 - A. Short sale
 - B. Foreclosure
 - C. Bankruptcy filing
 - D. Lease option
- 5. What is the document that transfers property ownership called?**
 - A. Lien
 - B. Mortgage
 - C. Deed
 - D. Deed of trust

- 6. Which item is included in the estimated housing expenses category?**
- A. HOA dues
 - B. Principal and interest, insurance, property taxes, and mortgage insurance
 - C. Capital gains tax
 - D. Pest inspection fee
- 7. Which option is included in closing costs – other?**
- A. Pest inspection certificate
 - B. Real estate commission
 - C. Hazard insurance
 - D. Pest inspection certificate and real estate commission
- 8. Which questions are answered by an abstract and opinion?**
- A. The property's market value and potential resale price.
 - B. The title's marketability alone, without considering clouds on title.
 - C. Whether the title is marketable, whether there are clouds on the title, and whether there is a break in the chain of title.
 - D. The current property tax status and assessment.
- 9. Which funds are typically held in an escrow account in mortgage financing?**
- A. Funds for repair reserves and HOA dues only.
 - B. Funds restricted to property taxes.
 - C. Funds allocated for homeowners insurance.
 - D. Funds for property taxes and homeowners insurance, and sometimes mortgage insurance.
- 10. What is a CMA and what are its limitations?**
- A. A CMA is a formal appraisal conducted to lender standards.
 - B. A CMA is an agent's estimate based on recent comps and is not a formal appraisal.
 - C. A CMA provides the exact market value.
 - D. A CMA is always more precise than a formal appraisal.

Answers

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

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Explanations

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1. Which of the following statements best describes what is typically included in a monthly mortgage payment?

- A. Principal and interest (and possibly escrow for taxes and insurance).**
- B. Only interest; taxes paid separately.
- C. Only principal; no escrow.
- D. Insurance premium only.

Monthly mortgage payments typically cover paying down the loan (principal) and the interest charged for borrowing, and they often include an escrow portion to cover property taxes and homeowners insurance. This combination is common because the lender wants to ensure taxes and insurance are paid on time and the loan remains secure. The phrase that it includes principal and interest (and possibly escrow for taxes and insurance) best captures the standard structure you'll see in most mortgages. The other options omit essential parts of the payment: paying only interest would not reduce the loan balance, paying only principal ignores the interest due, and paying only the insurance premium omits the principal and interest that amortize the loan.

2. What is a "right of rescission" in certain types of mortgage transactions, and when does it apply?

- A. The right of rescission is only for first-time homebuyers.
- B. The right of rescission applies to all purchase mortgages.
- C. The right to cancel certain refinances or home equity loans within a period after closing, typically under TILA; it does not apply to most purchase-money mortgages.**
- D. The right of rescission allows cancellation of any mortgage at any time.

The right of rescission is a protection under the Truth in Lending Act that gives borrowers a short period to cancel certain loans secured by their primary residence after closing. It specifically applies to loans that refinance an existing mortgage or add a second lien, such as home equity loans or home equity lines of credit. The window is typically three business days after closing or after the borrower receives the required disclosures, whichever is later. If the borrower exercises the right, the lender must stop the loan process and return any payments already made, and the security interest is voided. This is why it doesn't apply to most purchase-money mortgages, where the loan is used to buy the home rather than to refinance or add new debt secured by the dwelling.

3. What does LTV stand for and how is it used in mortgage decisions related to PMI?

- A. Loan-to-Value ratio; used to assess risk and trigger PMI removal thresholds.**
- B. Lease-to-Value ratio; used to set rent.
- C. Loan Value ratio; used to rate lender risk.
- D. Liquidity-to-Value ratio; used to measure cash on hand.

LTV stands for Loan-to-Value ratio. It's the lender's measure of risk, calculated by dividing the loan amount by the property's appraised value or purchase price (whichever is lower). A higher LTV means the borrower has less equity and the lender faces more risk, which is why PMI is commonly required when the LTV is above about 80%. As you pay down the loan or as the property value climbs, the LTV drops, and lenders often allow removing PMI once the LTV reaches a threshold around 78% (subject to specific loan terms and guidelines). LTV also helps determine how costly the PMI will be—the higher the LTV, typically the higher the PMI premium. In short, this ratio is used to gauge risk and to set the conditions under which PMI is required or canceled.

4. Which of the following is an example of a workout option to avoid foreclosure?

- A. Short sale**
- B. Foreclosure
- C. Bankruptcy filing
- D. Lease option

A workout option to avoid foreclosure is a strategy where you and the lender agree to resolve the loan outside of a full foreclosure. Short sale fits this best because it lets you sell the home for less than the mortgage balance with the lender's approval. By doing this, the lender recovers part of the loan and avoids the costs and time of a foreclosure sale, and you avoid the severe credit impact of foreclosure. Foreclosure itself is not a workaround you choose; it's the process you're trying to prevent. Bankruptcy filing can pause foreclosure temporarily through an automatic stay, but it's a legal action you take rather than a lender-approved workout option, and it has significant long-term credit and financial implications. A lease option isn't a typical lender workout to settle the debt; it's more about renting with a future purchase option and doesn't directly resolve the mortgage deficiency with the lender.

5. What is the document that transfers property ownership called?

- A. Lien
- B. Mortgage
- C. Deed**
- D. Deed of trust

Transferring ownership is done with a deed. A deed is the legal instrument that conveys title from the seller (grantor) to the buyer (grantee). For the transfer to take effect, the deed must be properly executed, delivered, and typically recorded to provide public notice of the new owner. Types of deeds vary in the guarantees they offer about the title, but all variations share that they transfer ownership. The other concepts are different: a lien is a claim against the property for a debt and does not transfer ownership; a mortgage is a loan secured by the property, giving the lender an interest but not transferring title; a deed of trust is a security instrument used in some states to secure a loan, again avoiding transfer of ownership unless foreclosure occurs.

6. Which item is included in the estimated housing expenses category?

- A. HOA dues
- B. Principal and interest, insurance, property taxes, and mortgage insurance**
- C. Capital gains tax
- D. Pest inspection fee

Monthly housing expenses are the regular costs you pay to own and finance a home. The most common components are the mortgage payment for principal and interest, plus the ongoing ownership costs of property taxes and homeowners insurance. If the loan requires mortgage insurance, that monthly premium is included as well. Together, principal and interest, property taxes, homeowners insurance, and mortgage insurance cover the predictable, recurring amount lenders use to estimate your housing costs. One-time fees like pest inspection are not part of ongoing monthly housing costs, and capital gains tax is only due when you sell the property. HOA dues can be included if they're a monthly, required cost, but the standard housing expense estimate focuses on these four core items.

7. Which option is included in closing costs – other?

- A. Pest inspection certificate
- B. Real estate commission
- C. Hazard insurance
- D. Pest inspection certificate and real estate commission**

Closing costs are the fees you pay to finalize a real estate deal beyond the purchase price and loan. A pest inspection certificate is a service often required to close the deal or satisfy lender/contract conditions, so its cost is paid at closing and counted as a closing cost. The real estate commission is the broker's fee paid at closing as part of selling costs, also part of the closing costs bundle. These two items are classic examples of "other closing costs" because they're not the loan itself but are necessary fees to complete the transaction. Hazard insurance is typically treated as a prepaid item for the homeowner's policy, though it is part of the overall closing costs, it's commonly categorized separately.

8. Which questions are answered by an abstract and opinion?

- A. The property's market value and potential resale price.
- B. The title's marketability alone, without considering clouds on title.
- C. Whether the title is marketable, whether there are clouds on the title, and whether there is a break in the chain of title.**
- D. The current property tax status and assessment.

The abstract and opinion focus on the status of the title itself, not on value or taxes. The abstract compiles all recorded instruments that could affect ownership—past deeds, liens, judgments, encumbrances, and gaps in recording. The opinion then judges whether the title is marketable and notes any defects that cloud ownership or reveal a break in the chain of title. In practical terms, it answers three questions: is the title marketable, are there clouds on the title, and is the chain of title intact. Choices that talk about market value, or tax status, don't address the title's ownership issues the abstract and opinion cover, and a choice mentioning marketability alone without clouds misses the complete picture.

9. Which funds are typically held in an escrow account in mortgage financing?

- A. Funds for repair reserves and HOA dues only.
- B. Funds restricted to property taxes.
- C. Funds allocated for homeowners insurance.
- D. Funds for property taxes and homeowners insurance, and sometimes mortgage insurance.**

Escrow accounts are funds held by the lender to cover recurring housing costs so they're paid on time. The main items funded this way are property taxes and homeowners insurance, with mortgage insurance included if the loan requires it. By splitting those large annual payments into monthly amounts collected with the mortgage, the lender helps prevent tax forfeiture or lapse in insurance, which protects both borrower and lender. That's why the best choice includes property taxes and homeowners insurance, and notes that mortgage insurance may also be escrowed when required. The other options miss either taxes, or insurance, or both, or introduce items not typically held in escrow by default (like repair reserves or HOA dues).

10. What is a CMA and what are its limitations?

- A. A CMA is a formal appraisal conducted to lender standards.
- B. A CMA is an agent's estimate based on recent comps and is not a formal appraisal.**
- C. A CMA provides the exact market value.
- D. A CMA is always more precise than a formal appraisal.

A CMA, or Comparative Market Analysis, is an agent's estimate of a property's value based on recent sales of similar homes, current listings, and overall market trends. It helps price a home for sale by showing what buyers are likely to pay in the local market, but it isn't the same as a formal appraisal. This is the best description because it captures both the method (using comps and market data) and the purpose (pricing guidance for an agent) while noting that it's not a lender-valued valuation. A CMA is not a formal appraisal and doesn't carry the same standards or guarantees; it isn't a precise or binding determination of value for financing. Limitations include that it relies on the selection of comps and current data, which can introduce bias or variability. It's time-sensitive, may overlook certain property features or condition nuances, and isn't conducted under appraisal standards (like USPAP). Because of these factors, a CMA provides an estimate rather than exact market value and isn't used as a substitute for a lender's appraisal when securing a loan. Other statements don't fit because a CMA is not a formal appraisal, it does not provide an exact market value, and it isn't inherently more precise than a formal appraisal.

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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://realestatemortgageterms.examzify.com>

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

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