

# Real Estate Financing and Settlement Practice Exam (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. What is one benefit of a home warranty for homeowners?**
  - A. Full ownership of the property**
  - B. Guarantee of profit from the sale**
  - C. Peace of mind regarding major repairs**
  - D. Increased property value**
  
- 2. Which loan type allows for an increase in payments when interest rates rise?**
  - A. Fixed-rate mortgage**
  - B. Subprime mortgage**
  - C. Adjustable rate mortgage**
  - D. Conventional mortgage**
  
- 3. In an adjustable rate mortgage, what dictates the changes in interest rates?**
  - A. The mortgage term**
  - B. The lender's discretion**
  - C. The market index**
  - D. The borrower's credit score**
  
- 4. What feature does a convertible ARM (Adjustable Rate Mortgage) offer the borrower?**
  - A. An automatic fixed rate**
  - B. The option to convert to a fixed-rate loan**
  - C. A fixed monthly payment**
  - D. Lower initial interest rate**
  
- 5. What are "points" in real estate financing?**
  - A. Discounts on closing costs**
  - B. Upfront fees to lower mortgage interest rates**
  - C. Taxes owed on the property**
  - D. Types of insurance associated with mortgages**

**6. How might a conditional use permit affect property value?**

- A. It typically lowers the property value**
- B. It has no impact on property value**
- C. It can enhance property value through permitted usage**
- D. It makes the property ineligible for selling**

**7. When borrowing against personal property, what document does the borrower sign to secure the loan?**

- A. Loan Agreement**
- B. Security Agreement**
- C. Collateral Contract**
- D. Ownership Title**

**8. In real estate, what does "equity" represent?**

- A. The difference between the property's market value and mortgage balance**
- B. The total value of all properties owned by an individual**
- C. The rental income generated by a property**
- D. The initial investment made by the owner**

**9. Who is responsible for paying the commission in a real estate transaction with an exclusive right-to-sell listing?**

- A. The buyer**
- B. The seller**
- C. The real estate agent**
- D. The lender**

**10. What must a buyer seek if a seller's existing loan has an alienation clause?**

- A. New financing**
- B. Loan assumption**
- C. Reduction in loan terms**
- D. Change in interest rate**

## **Answers**

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

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## **Explanations**

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## 1. What is one benefit of a home warranty for homeowners?

- A. Full ownership of the property
- B. Guarantee of profit from the sale
- C. Peace of mind regarding major repairs**
- D. Increased property value

A home warranty provides homeowners with peace of mind regarding major repairs. This benefit is significant because homeownership often comes with unexpected maintenance issues and repair costs that can be stressful and financially burdensome. A home warranty typically covers the repair or replacement of major systems and appliances, such as heating and cooling systems, plumbing, and electrical systems, which allows homeowners to be more confident in their investment. Knowing that these potentially costly repairs are covered reduces anxiety and allows homeowners to budget more effectively for other expenses. In contrast, full ownership of the property pertains to legal rights and does not address repair concerns. Guaranteeing a profit from the sale is unrealistic, as property values can fluctuate based on market conditions. While a home warranty may enhance buyer interest during a sale, it doesn't necessarily increase property value directly.

## 2. Which loan type allows for an increase in payments when interest rates rise?

- A. Fixed-rate mortgage
- B. Subprime mortgage
- C. Adjustable rate mortgage**
- D. Conventional mortgage

An adjustable-rate mortgage (ARM) is designed to allow for changes in payments based on the fluctuations of interest rates. Unlike fixed-rate mortgages, where the interest rate remains constant throughout the loan term, ARMs have an initial fixed period after which the interest rate adjusts periodically, typically tied to an index. When interest rates rise, the payment on an ARM can also increase, reflecting these higher rates. This characteristic makes ARMs appealing to some borrowers seeking lower initial payments and who may expect stable or declining interest rates in the future. However, it also introduces the risk of higher future payments if rates increase, which can significantly affect monthly budgeting for homeowners. In contrast, fixed-rate and conventional mortgages maintain consistent payments regardless of market interest rate changes. Subprime mortgages can have varying structures, but they do not inherently allow for a change in payments due to general interest rate adjustments like ARMs do. Therefore, the key trait of adjustable-rate mortgages is their flexibility regarding interest rate changes, which directly influences payment amounts over time.

### 3. In an adjustable rate mortgage, what dictates the changes in interest rates?

- A. The mortgage term
- B. The lender's discretion
- C. The market index**
- D. The borrower's credit score

In an adjustable rate mortgage (ARM), the changes in interest rates are dictated by a market index. A market index is a benchmark interest rate that reflects the general level of interest rates in the economy. These indexes can vary widely, including options such as the London Interbank Offered Rate (LIBOR), the Constant Maturity Treasury (CMT), or the Cost of Funds Index (COFI). The specified market index serves as a reference point for adjusting the interest rate on the mortgage at predetermined intervals, such as annually or semi-annually. As the index fluctuates due to economic conditions, the interest rate on the mortgage will adjust accordingly. This relationship ensures that the mortgage rate is aligned with current market conditions, protecting lenders and affecting the borrower's monthly payment amounts. In contrast, the other options do not accurately capture the mechanism of rate adjustment in an ARM. The mortgage term merely indicates the overall duration of the loan, while the lender's discretion pertains to credit evaluation and loan approval rather than interest rate adjustments. Finally, while the borrower's credit score does play a significant role in determining the initial interest rate offered, it does not influence the adjustments made to the rate after the loan has been originated.

### 4. What feature does a convertible ARM (Adjustable Rate Mortgage) offer the borrower?

- A. An automatic fixed rate
- B. The option to convert to a fixed-rate loan**
- C. A fixed monthly payment
- D. Lower initial interest rate

A convertible adjustable-rate mortgage (ARM) is designed to provide borrowers with flexibility in terms of their mortgage interest rate structure. Specifically, this type of mortgage includes the option for the borrower to convert their adjustable rate to a fixed rate after a specified period or under certain conditions. This feature is particularly advantageous for borrowers who may anticipate rising interest rates in the future or prefer the stability of a fixed-rate mortgage after a certain time. Having the ability to switch to a fixed-rate loan means that if market conditions change and interest rates increase, the borrower can lock in a stable repayment structure that provides predictability in monthly payments. This feature is beneficial for those who want the advantages of a lower initial interest rate typically associated with ARMs while still retaining the option to secure a fixed rate later on when it may be more favorable. The alternative options provided do not accurately describe the distinctive benefit of a convertible ARM. For instance, the automatic fixed rate does not exist within this framework, as borrowers must actively choose to convert. Similarly, while a fixed monthly payment might be associated with a fixed-rate mortgage, it does not apply to the adjustable components of an ARM until conversion occurs. Lastly, while lower initial interest rates are characteristic of ARMs generally, they are not exclusive.

## 5. What are "points" in real estate financing?

- A. Discounts on closing costs
- B. Upfront fees to lower mortgage interest rates**
- C. Taxes owed on the property
- D. Types of insurance associated with mortgages

In real estate financing, "points" refer to upfront fees that a borrower pays to the lender at closing in exchange for a reduced interest rate on a mortgage. Each point is typically equal to one percent of the loan amount, and this payment can lower the monthly mortgage payments over the life of the loan. Borrowers often choose to pay points when they plan to stay in the home long enough to benefit from the reduced interest costs, as this can lead to significant savings over time. Reducing the interest rate through points is a strategic decision that can be advantageous depending on the borrower's financial situation and future plans. The other options pertain to unrelated concepts in real estate financing. For instance, discounts on closing costs do not involve points in the context of interest rates; rather, they refer to negotiating reduced fees associated with the closing process. Taxes owed on the property are a separate financial obligation that homeowners must manage independently of their mortgage financing. Lastly, types of insurance related to mortgages, such as mortgage insurance, serve a different purpose in the transaction and are not categorized under points.

## 6. How might a conditional use permit affect property value?

- A. It typically lowers the property value
- B. It has no impact on property value
- C. It can enhance property value through permitted usage**
- D. It makes the property ineligible for selling

A conditional use permit allows property owners to use their land in a way that is not typically permitted by zoning regulations, provided they meet specific criteria set by local authorities. When granted, this permit can significantly enhance the property value because it expands the potential uses and, therefore, the marketability of the property. For instance, a residential property with a conditional use permit for a home-based business might attract buyers looking for both living and working space, potentially driving up interest and price. The ability to utilize the property for additional purposes increases its desirability, which is why many property investors view conditional use permits as a positive attribute. Furthermore, the added flexibility can appeal to a broader range of potential buyers or renters, further enhancing value. In essence, rather than limiting the property's potential, a conditional use permit can open new avenues for income and development.

**7. When borrowing against personal property, what document does the borrower sign to secure the loan?**

- A. Loan Agreement**
- B. Security Agreement**
- C. Collateral Contract**
- D. Ownership Title**

When a borrower seeks to secure a loan against personal property, they sign a Security Agreement. This document is essential because it establishes the lender's rights over the collateral provided by the borrower. The Security Agreement details the specific personal property that is being used as collateral, and it confirms the lender's legal claim to that property in the event the borrower defaults on the loan. The significance of the Security Agreement lies in its role in providing a clear framework for the transaction, ensuring that both parties understand the terms of the collateralization and the lender's rights. It also outlines the obligations of the borrower, including what happens in case of non-payment, thereby protecting the lender's interests. In contrast, a Loan Agreement typically outlines the terms of the loan itself, such as the amount borrowed, interest rate, and repayment schedule, but does not specifically address the collateral. The term Collateral Contract does not accurately reflect the required legal document in this context, as it's not a standard term used in lending practices. Lastly, Ownership Title refers to the legal proof of ownership of the property and does not serve the purpose of securing a loan. Thus, the Security Agreement is the definitive document that achieves this purpose in the context of borrowing against personal property.

**8. In real estate, what does "equity" represent?**

- A. The difference between the property's market value and mortgage balance**
- B. The total value of all properties owned by an individual**
- C. The rental income generated by a property**
- D. The initial investment made by the owner**

Equity in real estate refers to the value that an owner has in a property, which is determined by the difference between the property's market value and the remaining balance on any mortgage or loans secured against it. When the market value of the property increases or when the owner pays down the mortgage, the equity in the property also increases. This concept is crucial because it represents the owner's financial interest and can be leveraged for loans or accessed in the form of cash if the property is sold. Understanding equity is fundamental for property owners and real estate investors because it directly impacts their financial position. In contrast, the total value of all properties owned would not specifically reflect equity in a single property; rental income pertains to income generation rather than ownership value; and the initial investment made by the owner does not account for changes in property value or debt repayment over time. Thus, the definition related to the market value and mortgage balance accurately captures the essence of what equity represents in real estate.

**9. Who is responsible for paying the commission in a real estate transaction with an exclusive right-to-sell listing?**

- A. The buyer**
- B. The seller**
- C. The real estate agent**
- D. The lender**

In a real estate transaction involving an exclusive right-to-sell listing, it is the seller who is responsible for paying the commission. This arrangement is typically outlined in the listing agreement signed by the seller and their real estate agent. The exclusive right-to-sell contract establishes that the agent has the sole authority to sell the property and will earn a commission regardless of who ultimately sells it, whether that be the agent, another agency, or even the seller themselves. This commission is usually a percentage of the sale price and is paid at the closing of the transaction. The other parties involved do not assume responsibility for the commission in this type of listing. The buyer may contribute to closing costs, but they are not liable for the real estate agent's commission unless specifically specified in the sale agreement. The real estate agent typically earns their commission through the service they provide in facilitating the sale, and the lender's role is primarily financial, focusing on providing mortgage financing rather than participating in commission structures.

**10. What must a buyer seek if a seller's existing loan has an alienation clause?**

- A. New financing**
- B. Loan assumption**
- C. Reduction in loan terms**
- D. Change in interest rate**

When a seller's existing loan has an alienation clause, it means that the lender has the right to call the loan due if the property is sold or transferred without prior approval. In this situation, the buyer must seek new financing because the alienation clause typically prohibits the assumption of the loan by another party. New financing would allow the buyer to secure a mortgage independent of the existing loan's stipulations, thus avoiding any complications associated with the alienation clause. By obtaining new financing, the buyer can purchase the property while respecting the lender's requirements and conditions outlined in the current loan agreement. Options like loan assumption, reduction in loan terms, or change in interest rate are not suitable here, as they do not address the need to pay off the existing loan due to the alienation clause. Loan assumption would require the lender's consent, which may not be granted; therefore, seeking new financing becomes the necessary course of action.

# 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](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://realestatefinancingsettlement.examzify.com>**

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

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