

Texas Real Estate Finance Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. Which document usually outlines the details of the MIP Rate?**
 - A. Loan Estimate**
 - B. Property Deed**
 - C. Title Insurance**
 - D. Closing Disclosure**
- 2. What does a USDA loan support?**
 - A. Urban housing purchases**
 - B. Investment properties**
 - C. Rural property buyers**
 - D. Commercial real estate**
- 3. Which loan type would likely have a lower Funding Fee?**
 - A. FHA Loans**
 - B. VA Loans for first-time use**
 - C. Conventional Loans**
 - D. USDA Loans**
- 4. What is a common use for a mortgage contingency clause in a real estate purchase agreement?**
 - A. To guarantee a low interest rate**
 - B. To allow the buyer to withdraw if financing cannot be attained**
 - C. To ensure funds are released upon offers**
 - D. To restrict access to the property until closing**
- 5. What does the VA FF Rate stand for in the context of real estate finance?**
 - A. Financing Fee**
 - B. Funding Fee**
 - C. Financial Fee**
 - D. Fees for Funding**

- 6. What is a mortgage contingency clause?**
- A. A clause allowing the lender to increase interest rates**
 - B. A provision that allows a buyer to back out of a purchase if they cannot secure financing**
 - C. A clause that guarantees the buyer will qualify for a loan**
 - D. A requirement for the buyer to provide a larger down payment**
- 7. What type of mortgage has an interest rate that can change over time?**
- A. Fixed-rate mortgage**
 - B. Conventional mortgage**
 - C. Adjustable-rate mortgage (ARM)**
 - D. Balloon mortgage**
- 8. What type of loan is typically more accessible to first-time buyers?**
- A. Conventional loan**
 - B. VA loan**
 - C. FHA loan**
 - D. Bridge loan**
- 9. What is the current maximum loan to value ratio for FHA loans?**
- A. 90%**
 - B. 92%**
 - C. 95%**
 - D. 96.5%**
- 10. What is the purpose of a deed of trust?**
- A. To prevent foreclosure**
 - B. To secure a loan with property as collateral**
 - C. To transfer property ownership**
 - D. To establish equity**

Answers

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

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Explanations

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1. Which document usually outlines the details of the MIP Rate?

- A. Loan Estimate**
- B. Property Deed**
- C. Title Insurance**
- D. Closing Disclosure**

The Loan Estimate is the correct document that outlines the details of the Mortgage Insurance Premium (MIP) Rate. This document is provided to borrowers shortly after they apply for a mortgage, detailing the important terms of the loan, including interest rates, monthly payments, and upfront costs, such as the MIP Rate. The Loan Estimate is designed to give borrowers a clear understanding of the costs associated with their loan and helps them compare offers from different lenders. This emphasis on transparency in the mortgage process includes a breakdown of ongoing costs like MIP, which is particularly relevant for certain government-backed loans. Understanding the MIP Rate is crucial for borrowers, especially those looking to evaluate their total loan costs over time. While the Closing Disclosure is another important document in the mortgage process, it primarily summarizes the final terms and costs before closing, rather than providing an initial outline of specific rates like the MIP. The Property Deed and Title Insurance serve different purposes related to ownership and legal rights but do not address loan terms or costs directly.

2. What does a USDA loan support?

- A. Urban housing purchases**
- B. Investment properties**
- C. Rural property buyers**
- D. Commercial real estate**

A USDA loan is specifically designed to support rural property buyers. These loans are part of the U.S. Department of Agriculture's initiative to promote homeownership in rural areas, making it easier for individuals and families to buy homes in regions that may not receive as much attention from traditional lenders. USDA loans come with certain eligibility criteria that focus on both the location of the property and the income of the applicants, ensuring that the assistance reaches those who need it most in less densely populated areas. This makes them a valuable resource for promoting economic development and improving housing opportunities in rural communities. In contrast to the other options, which do not align with the goals and criteria of USDA loans, this choice accurately reflects the primary purpose of USDA loans, which is to facilitate home purchases in rural environments.

3. Which loan type would likely have a lower Funding Fee?

- A. FHA Loans
- B. VA Loans for first-time use**
- C. Conventional Loans
- D. USDA Loans

The lower Funding Fee associated with VA Loans for first-time use is significant because it reflects the government's effort to encourage veterans to take advantage of homeownership benefits. The Funding Fee is a one-time payment that helps sustain the VA Loan program, and for first-time users, this fee is generally lower than for subsequent uses. This is particularly important for veterans and active-duty service members as it allows them to secure a home loan with less financial burden upfront. VA Loans also offer other benefits, such as no down payment and no private mortgage insurance (PMI), making them an attractive option for those who qualify. In contrast, FHA Loans require an upfront mortgage insurance premium which tends to be higher than a VA Funding Fee, even for first-time homebuyers. Conventional Loans may come with private mortgage insurance if there is a down payment of less than 20%, and USDA Loans, while also beneficial for those in rural areas, do carry their own fees and costs that may not be lower than the VA option for first-time users. Overall, the lower Funding Fee for first-time use VA Loans reflects the program's designed to make homeownership more accessible for veterans.

4. What is a common use for a mortgage contingency clause in a real estate purchase agreement?

- A. To guarantee a low interest rate
- B. To allow the buyer to withdraw if financing cannot be attained**
- C. To ensure funds are released upon offers
- D. To restrict access to the property until closing

A mortgage contingency clause is a critical component in real estate transactions that protects buyers during the purchase process. This clause allows buyers to withdraw from the agreement without penalty if they are unable to secure the necessary financing to complete the purchase. The primary purpose is to provide buyers with a safeguard against the scenario where their loan application is denied or the mortgage terms are unfavorable, which could jeopardize their ability to close on the property. This clause is especially significant in today's fluctuating financial environment, where interest rates and lending policies can change unexpectedly. By having this provision in place, buyers can enter the contract with the assurance that they won't be obligated to proceed if they cannot obtain adequate financing. While some other options might seem related to financing or property access, they do not accurately describe the function of a mortgage contingency clause. For instance, guaranteeing a low interest rate is not within the scope or intent of this clause; it specifically addresses the buyer's security concerning their ability to finance the purchase.

5. What does the VA FF Rate stand for in the context of real estate finance?

- A. Financing Fee**
- B. Funding Fee**
- C. Financial Fee**
- D. Fees for Funding**

The VA FF Rate stands for Funding Fee, which is a crucial component in the context of VA loans for veterans and active military members. This fee is a percentage of the total loan amount and is charged to help sustain the VA loan program. The purpose of the funding fee is to offset the costs of the loan guarantee benefit provided by the Department of Veterans Affairs. It is essential for maintaining the program and ensuring it remains available for future veterans. The funding fee can vary based on several factors, including the type of loan (whether it's a first-time use or subsequent use of a VA loan), the down payment amount, and the status of the borrower (such as whether they are active duty or a veteran). Importantly, this fee can be financed into the loan, meaning borrowers do not need to pay it upfront, making VA loans an attractive financing option. The other terms listed do not accurately represent the specific terminology used within the VA lending framework. For instance, "Financing Fee" and "Financial Fee" are not terms officially used in the context of VA loans, and "Fees for Funding" is a vague description that does not align with the established terminology regarding VA lending practices. Understanding the funding fee and its role is significant for anyone involved in

6. What is a mortgage contingency clause?

- A. A clause allowing the lender to increase interest rates**
- B. A provision that allows a buyer to back out of a purchase if they cannot secure financing**
- C. A clause that guarantees the buyer will qualify for a loan**
- D. A requirement for the buyer to provide a larger down payment**

A mortgage contingency clause is a crucial element in real estate transactions, particularly for buyers. This provision stipulates that the buyer has the right to withdraw from the purchase agreement if they are unable to secure financing for the property. It provides an essential safeguard for buyers; if they cannot obtain a mortgage within a specified timeframe, they are protected from potentially losing their earnest money deposit and are not legally bound to complete the purchase. This clause is particularly important because it acknowledges the uncertainty surrounding loan approvals, which can be influenced by various factors such as changes in credit scores or lender requirements. Thus, including a mortgage contingency clause in a purchase agreement helps to ensure a fair process for aspiring homeowners, allowing them to navigate the financing process without the risk of being contractually obligated to buy a property they cannot afford due to financing limitations.

7. What type of mortgage has an interest rate that can change over time?

- A. Fixed-rate mortgage**
- B. Conventional mortgage**
- C. Adjustable-rate mortgage (ARM)**
- D. Balloon mortgage**

An adjustable-rate mortgage (ARM) features an interest rate that can fluctuate over time based on market conditions or a specific index. This type of mortgage typically starts with a lower initial interest rate, which may be fixed for a certain period. After this initial period ends, the interest rate adjusts at predetermined intervals, which may lead to changes in the monthly payment amount. The adjustments are generally influenced by market interest rates, which means borrowers can experience payments that increase, decrease, or remain stable over the life of the loan. In contrast, a fixed-rate mortgage offers a consistent interest rate throughout the loan term, ensuring that monthly payments remain the same. A conventional mortgage refers broadly to any mortgage that is not insured or guaranteed by a government entity and can be fixed or adjustable. Lastly, a balloon mortgage is characterized by lower monthly payments that lead to a large final payment at the end of the term and does not typically involve the regular interest rate changes associated with ARMs.

8. What type of loan is typically more accessible to first-time buyers?

- A. Conventional loan**
- B. VA loan**
- C. FHA loan**
- D. Bridge loan**

The FHA loan is designed specifically to help first-time homebuyers and those with less than perfect credit gain access to home financing. One of the key features of an FHA loan is its lower down payment requirement, which can be as low as 3.5% of the purchase price. This makes homeownership more achievable for individuals who may not have significant savings or are entering the market for the first time. Additionally, FHA loans have more flexible credit score requirements, allowing buyers with a credit score as low as 580 to qualify (and even lower with a larger down payment). This accessibility to financing, combined with favorable terms such as competitive interest rates, makes FHA loans a popular choice for first-time buyers who may face financial constraints. In contrast, conventional loans generally require higher credit scores and down payments, making them less accessible for many first-time buyers, while VA loans are exclusive to veterans and active military members. Bridge loans, on the other hand, are temporary financing solutions typically used by homeowners transitioning from one property to another, further distancing them from being suitable for first-time buyers.

9. What is the current maximum loan to value ratio for FHA loans?

- A. 90%**
- B. 92%**
- C. 95%**
- D. 96.5%**

FHA loans have specific guidelines regarding the loan-to-value (LTV) ratio to help borrowers secure financing with lower down payments. The maximum LTV ratio for FHA loans is set at 96.5%. This means that a borrower can finance up to 96.5% of the property's appraised value or purchase price, whichever is lower. This aspect is particularly beneficial for first-time homebuyers who might not have substantial savings for a down payment. By allowing for a higher LTV, the FHA program expands access to homeownership for a broader range of borrowers, especially those who may be lower-income or have less-than-perfect credit histories. Therefore, the 96.5% LTV reflects the FHA's goal of promoting homeownership while still managing risk in its insurance programs.

10. What is the purpose of a deed of trust?

- A. To prevent foreclosure**
- B. To secure a loan with property as collateral**
- C. To transfer property ownership**
- D. To establish equity**

A deed of trust serves the primary purpose of securing a loan by using the property as collateral. In this arrangement, the borrower (trustor) conveys legal title to the property to a third party (trustee), who holds it for the benefit of the lender (beneficiary) until the loan is paid off. If the borrower defaults on the loan, the trustee has the authority to sell the property through a non-judicial foreclosure process, which allows the lender to recover the amount owed on the loan. This mechanism provides security for the lender, as it ensures that there is a physical asset backing the financial obligation. By having the property as collateral, it not only mitigates risk for the lender but also gives the borrower access to funds needed for purchasing or refinancing a property.