

TEXAS REAL ESTATE FINANCE PRACTICE TEST (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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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 term describes the initial amount of the loan taken out to purchase a property?**
 - A. Equity
 - B. Principal
 - C. Amortization
 - D. Down payment

- 2. What does a balloon mortgage require at the end of the mortgage term?**
 - A. Monthly payments to decrease
 - B. A lump sum payment of remaining balance
 - C. Renewal of the mortgage
 - D. Payment of only interest

- 3. What is a home equity line of credit (HELOC)?**
 - A. A loan that allows homeowners to borrow against their equity
 - B. A grant provided for home repairs
 - C. A type of fixed-rate mortgage
 - D. A savings account for home improvement

- 4. What does the Truth in Lending Act (Regulation Z) require lenders to do?**
 - A. Provide borrowers with a credit score
 - B. Inform borrowers of the true costs of credit through APR
 - C. Offer fixed-rate mortgages only
 - D. Assess buyers' ability to repay loans

- 5. What is the UFMIP Rate for FHA loans?**
 - A. 2.5%
 - B. 1.75%
 - C. 3.0%
 - D. 0.85%

- 6. What is a common consequence of being underwater on a loan?**
 - A. Increased property value
 - B. Debt-to-income ratio improvement
 - C. Potential foreclosure risk
 - D. Eligibility for loan forgiveness

7. What is a prepayment penalty?

- A. A fee charged for early loan repayment
- B. A fee for late mortgage payments
- C. A cost associated with refinancing
- D. A penalty for loan default

8. Which of the following is required from Independent Contractors in residential loans?

- A. Obtain a mortgage broker license
- B. Be employed full-time
- C. Receive payment for their services
- D. Complete a degree in finance

9. What is the significance of the Texas Mortgage Disclosure Act?

- A. It provides guidelines for lenders.
- B. It ensures borrowers receive necessary information about mortgage costs and terms.
- C. It regulates interest rates in Texas.
- D. It sets minimum standards for appraisals.

10. What does FHA stand for in real estate financing?

- A. Federal Housing Administration
- B. Financial Home Association
- C. First-time Homebuyers Assistance
- D. Federal Housing Act

Answers

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

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Explanations

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1. Which term describes the initial amount of the loan taken out to purchase a property?

- A. Equity
- B. Principal**
- C. Amortization
- D. Down payment

The term that describes the initial amount of the loan taken out to purchase a property is "Principal." In the context of real estate financing, the principal is the original sum of money borrowed from a lender to buy a home or property. This amount is essential because it forms the basis on which interest is calculated over the life of the loan. Understanding the principal amount is crucial for borrowers, as it directly impacts monthly payments, the total interest paid over the term of the loan, and the overall financial obligation. For example, if a borrower takes out a \$200,000 loan to buy a house, \$200,000 is the principal. The other terms, while related to financing, refer to different aspects. Equity represents the homeowner's interest in the property, which is calculated as the property's value minus any outstanding loan balances. Amortization refers to the process of gradually paying off the loan through regular monthly payments over time. Finally, the down payment is the initial cash amount paid upfront by the buyer toward the purchase of the property, often expressed as a percentage of the property's purchase price, but it is not the loan amount itself.

2. What does a balloon mortgage require at the end of the mortgage term?

- A. Monthly payments to decrease
- B. A lump sum payment of remaining balance**
- C. Renewal of the mortgage
- D. Payment of only interest

A balloon mortgage is a loan that typically provides lower monthly payments for a specific period, after which a large payment is due at the end of the loan term. This structure results in a significant lump sum payment that covers the remaining balance of the principal. The initial monthly payments often consist mostly of interest, allowing the borrower to pay less each month until the end of the term when the total outstanding balance, or "balloon," must be paid in full. This feature makes balloon mortgages appealing to some borrowers; however, it requires careful consideration since the large final payment can be a financial challenge if the borrower is not prepared for it. Thus, at the end of the mortgage term, a balloon mortgage necessitates this lump sum payment of the remaining balance, making it essential for borrowers to plan strategically for that financial obligation.

3. What is a home equity line of credit (HELOC)?

- A. A loan that allows homeowners to borrow against their equity**
- B. A grant provided for home repairs
- C. A type of fixed-rate mortgage
- D. A savings account for home improvement

A home equity line of credit (HELOC) is indeed a loan that allows homeowners to borrow against their equity. This financial product enables homeowners to access funds based on the difference between their home's current market value and the outstanding balance on their mortgage. HELOCs function similarly to a credit card, where the borrower is given a credit limit they can draw from as needed, rather than receiving a lump sum. This flexibility makes HELOCs an appealing option for individuals who may need funds for various purposes, such as home renovations, education expenses, or other financial needs, while leveraging the equity they have built up in their property. The other options, while they may relate to home financing or improvement in some manner, do not capture the essence of what a HELOC is. A grant for home repairs does not require repayment, nor does it involve borrowing against equity. A fixed-rate mortgage is a different type of loan structure that does not allow for revolving credit based on equity, and a savings account for home improvement does not represent a borrowing mechanism. Thus, the nature of a HELOC as a line of credit backed by home equity makes it distinct and important in the context of real estate finance.

4. What does the Truth in Lending Act (Regulation Z) require lenders to do?

- A. Provide borrowers with a credit score
- B. Inform borrowers of the true costs of credit through APR**
- C. Offer fixed-rate mortgages only
- D. Assess buyers' ability to repay loans

The Truth in Lending Act (TILA), implemented through Regulation Z, mandates that lenders disclose the true costs of credit to borrowers, primarily through the Annual Percentage Rate (APR). The APR represents the total yearly cost of borrowing expressed as a percentage, which includes not just the interest rate, but also any fees and additional costs involved in obtaining the loan. This requirement ensures that consumers can compare different lending offers in a standardized manner, aiding them in making informed borrowing decisions. By highlighting the actual cost of credit over the term of the loan, borrowers gain a clearer understanding of their financial obligations and the long-term implications of the loan. This transparency is a cornerstone of the Act's intent to promote fair lending practices and protect consumers from misleading credit terms. The other options involve aspects of lending that are not mandated by TILA. For instance, while providing a credit score might be helpful for lenders and borrowers alike, it's not a requirement under Regulation Z. Additionally, the Act does not limit lenders to offering fixed-rate mortgages, nor does it require an assessment of a buyer's ability to repay loans; these are governed by other regulations and lender policies.

5. What is the UFMIP Rate for FHA loans?

- A. 2.5%
- B. 1.75%**
- C. 3.0%
- D. 0.85%

The UFMIP, or Upfront Mortgage Insurance Premium, rate for FHA loans is established at 1.75%. This rate is significant because it is a one-time charge paid at closing that helps protect the lender against losses if the borrower defaults on the loan. The 1.75% amount is calculated based on the total loan amount and can be financed into the mortgage or paid upfront in cash. Understanding this rate is crucial for borrowers, as it affects the total cost of obtaining an FHA loan. This specific rate is standardized by the Federal Housing Administration and reflects their risk assessment for insuring loans—demonstrating the government's commitment to facilitating easier access to home financing for low to moderate-income families.

6. What is a common consequence of being underwater on a loan?

- A. Increased property value
- B. Debt-to-income ratio improvement
- C. Potential foreclosure risk**
- D. Eligibility for loan forgiveness

Being underwater on a loan means that the outstanding balance of the loan is greater than the current market value of the property. One of the most significant consequences of being in this situation is the heightened risk of foreclosure. This occurs because homeowners who are underwater may struggle to keep up with their mortgage payments, especially if they face financial difficulties or job loss. They have little incentive to maintain their mortgage, since selling the property would not cover the amount owed, and they may consider walking away from the loan altogether to avoid further financial burden. In this scenario, the risk of foreclosure increases, as lenders may initiate foreclosure proceedings when payments are missed, leading to the loss of the property. Therefore, understanding the implications of being underwater on a loan, particularly the potential for foreclosure, is crucial for homeowners and borrowers in managing their financial obligations effectively. Other options, such as increased property value or improvement of the debt-to-income ratio, do not occur as a result of being underwater, while eligibility for loan forgiveness is not a common automatic consequence of this financial position.

7. What is a prepayment penalty?

- A. A fee charged for early loan repayment
- B. A fee for late mortgage payments
- C. A cost associated with refinancing
- D. A penalty for loan default

A prepayment penalty is a fee that borrowers may incur if they pay off their loan early, in whole or in part, before the agreed-upon term ends. This fee is typically included in the loan agreement to compensate the lender for the loss of interest income that would have been earned had the borrower continued to make payments as scheduled. Lenders may impose this penalty to discourage early repayment, ensuring that they receive their expected returns over the life of the loan. This concept is especially relevant in the context of fixed-rate mortgages, where the lender has calculated interest revenue based on a longer repayment period. If the borrower repays the loan early, the lender may not only lose the scheduled interest payments but also face costs related to lending that money elsewhere. Therefore, a prepayment penalty protects the lender's financial interests while potentially impacting a borrower's financial decision-making. The other options pertain to different financial scenarios that do not relate directly to the act of paying off a loan early. Late mortgage payments incur fees as penalties for missed deadlines, while costs associated with refinancing relate to changing the terms of an existing loan, not the repayment of the loan itself. Similarly, penalties for loan default are consequences of failing to repay the loan as agreed, which differs fundamentally from

8. Which of the following is required from Independent Contractors in residential loans?

- A. Obtain a mortgage broker license
- B. Be employed full-time
- C. Receive payment for their services
- D. Complete a degree in finance

Receiving payment for their services is essential for independent contractors involved in residential loans. This is because, by definition, independent contractors operate as self-employed individuals who provide goods or services to other businesses under terms specified in a contract. In the context of residential loans, their role often includes activities like processing loan applications, assisting with underwriting, or facilitating communication between parties involved in the loan process. While it may seem that a mortgage broker license, full-time employment, or a finance degree could be important, they are not requirements specifically tied to independent contractors in the residential loan context. Independent contractors are not tied to an employer in the traditional sense and can work on a project basis, which means they don't need to be employed full-time, nor do they necessarily need a formal education in finance. Instead, what is critical to their role is that they are compensated for their work, thus validating their status as independent contractors.

9. What is the significance of the Texas Mortgage Disclosure Act?

- A. It provides guidelines for lenders.
- B. It ensures borrowers receive necessary information about mortgage costs and terms.**
- C. It regulates interest rates in Texas.
- D. It sets minimum standards for appraisals.

The Texas Mortgage Disclosure Act plays a crucial role in protecting consumers by ensuring that borrowers receive important and necessary information about the costs and terms of their mortgage loans. This act mandates that lenders disclose key details, such as the annual percentage rate (APR), the total cost of the loan, and other fees associated with the mortgage. By doing so, it promotes transparency and allows borrowers to make informed decisions about their mortgages, helping them to understand their financial obligations and the implications of their borrowing choices. While the other options address various aspects of real estate financing, they do not capture the primary purpose of the Texas Mortgage Disclosure Act, which is specifically focused on providing vital information to borrowers to enhance their understanding of mortgage products.

10. What does FHA stand for in real estate financing?

- A. Federal Housing Administration**
- B. Financial Home Association
- C. First-time Homebuyers Assistance
- D. Federal Housing Act

The correct answer, Federal Housing Administration, is a key component in real estate financing, particularly for FHA loans. The FHA was established to improve housing standards and conditions and to provide an insurance program for lenders against losses on loans made to borrowers with lower or unstable credit histories. This enables more people to qualify for home loans, contributing to increased homeownership rates across the country. FHA loans are specifically designed to assist first-time homebuyers and those who may not have access to traditional financing due to lower credit scores or lack of a significant down payment. The role of the FHA in the housing market is critical, as it provides stronger backing for lenders and makes home financing more accessible. On the other hand, while the other options reference terms that might sound plausible, they do not accurately define FHA in the context of real estate financing. For example, Financial Home Association and First-time Homebuyers Assistance are not recognized entities or programs under the federal government related to housing finance. The Federal Housing Act, while important legislation in the history of housing regulations, does not represent an organization but rather a set of laws governing housing practices. Thus, the best understanding of the term FHA in this context clearly points to the Federal Housing Administration.

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://txrealestatefinance.examzify.com>

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

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