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16 Tips for Passing the NMLS Exam

Take steps to swing the odds of passing the licensing test in your favor

Every mortgage professional who originates loans for a non-Federal Deposit Insurance Corp.-insured entity must be licensed. And being licensed means having to pass the National Mortgage Licensing System (NMLS) pre-licensing exam.

The exam is relatively standard. It includes 100 computer-generated, multiple-choice questions that must be answered within three hours. Ten of the 100 questions are “test” questions that do not affect your grade. Of the remaining 90 questions, originators must achieve a passing score of 75 percent or better. That’s just a little pressure, especially considering that many people who fail do so by only two or three points. And according to the NMLS, between July 30, 2009, and this past Oct. 30, the pass rate for first-time national-component test-takers was 69 percent.

If you fail, you must wait 30 days after each of your first four attempts to retake the test and six months after that. Can your business afford to be sidelined for that long?

Although the deadline for taking the exam has passed in most states, consider the following 16 tips if you are among the originators who must retake the exam or if you are new to the industry and taking it for the first time. They may help you swing the odds of passing the NMLS exam in your favor.

1. Take a live class. As a mortgage professional, your time is valuable. You may wonder why you should “waste” two or three days sitting in a classroom when you can take the class online and simultaneously manage your business. Think about it: What is the likelihood that you’ll allow distractions such as

the phone, e-mails or visitors while you “watch” the webinar or take the online class? In which setting do you think you’ll be less distracted? Sitting at your desk or in a classroom where you are compelled to pay attention?

Taking a live course taught by a skilled instructor with whom you can interact captures your attention far longer than any other format would. And captured attention means greater levels of understanding and retention. By taking a live class, the inconvenience of missing work is clearly justified by passing the exam. After all, if you fail the exam, your hiatus may be longer than just two or three days.

- 2. Be rested.** Although it may sound like common sense, you’d be surprised how many people don’t take it seriously. Do yourself a favor and say no to the revelry the night before your 8 a.m. test. Missing one happy hour is certainly worth hitting the ground well-rested and clear-minded the day of your exam.
- 3. Plan to use all three hours.** You may have colleagues who’ve bragged about how they finished the exam in an hour and a half. That’s fine — and maybe you will, too. If you do, you’re certainly free to leave. But if you plan to spend only an hour taking it and schedule something for an hour and a half later, you might find yourself squirming should 20 to 25 questions remain when you’d planned to leave. You’re afforded three hours, so allot for three hours. Consider getting out any earlier a bonus.
- 4. Use your tutorial.** This test is too important for you to miss a question or two because you didn’t know how to access

the online calculator or how to go back to review a question. If your test offers a tutorial, take the time to go through it.

- 5. Read each question twice.** The NMLS test questions are frequently tricky, and your eyes and mind often work at different speeds. Imagine the following question: “At what equity position is mortgage insurance automatically removed?”
A) 80 percent
B) 78 percent
C) 22 percent
D) 20 percent

Your mind races — you remember your instructor emphasizing that once the loan-to-value ratio (LTV) reaches 78 percent, mortgage insurance is automatically removed.

So you choose “B,” and guess what? You’re wrong. The question didn’t ask about LTV. It asked about equity position. Clearly, the correct answer was “C,” but by reading it quickly, you picked the wrong answer and possibly found yourself waiting to retake the exam.

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Do yourself a favor: No matter how simple the questions seem, be sure to read each one at least twice.

6. Answer each question immediately.

To register your answer, you have two choices: “Confirm” or “Confirm and Review.” If you choose “confirm,” your answer is registered and there’s no going back. If you answer “confirm and review,” you move to the next question while retaining the opportunity to return to it once you’ve answered the last one.

The idea behind answering all questions right away is to answer all the ones you’re absolutely certain about immediately. Imagine struggling through 30 questions only to find that time is up with 70 questions you still have to tackle. By answering all the questions immediately, you can register the answers to the ones you know for certain and then go back and wrestle with the trickier ones.

One important note: If you leave an answer under the “confirm and review” status, it won’t be counted.

7. Look out for negatives. You’re almost certain to find wording such as “everything but,” “everything other than,” “except for” and “not” in questions. Be careful — overlooking one “not” might cause you to choose a wrong answer and end up with a failing grade. And that would not be pleasant. Read each question carefully.

8. Answer every question. A blank answer is a wrong answer. Even if you have no idea what the correct answer is, guess. If you leave it blank, it’s wrong. If you guess, you have a 25-percent chance of getting it correct.

9. If it’s not there, don’t add it. No matter how tempting it might be, do not add information that’s not there to a question. For example, if a question describes parties engaged in an activity that would violate the Real Estate Settlement Procedures Act (RESPA), such as someone offering someone else an item of value, and asks who’s in violation, don’t add more to the question. For instance, if the question does not state that the other party accepted the offer, the only violator is the party who offered it.

10. Do not assume questions are incomplete. If a question seems incomplete, don’t panic. For instance, what if the question is, “Which of the following characteristics would an originator be compelled to note if an applicant refuses to answer?” but neglects to stipulate that the interview is taking place face-to-face? According to the Home Mortgage Disclosure Act, an applicant has the right to refuse to answer certain questions if the application occurs in any manner other than face-to-face. But just because the question didn’t mention the face-to-face component doesn’t mean that you can’t identify the correct answer. Use your best judgment to work with the information you’re given.

11. Choose the best-possible answer. You may sometimes see a question with two correct answers. What do you do? Call over the proctor? No — proctors can’t answer any questions anyway. If you find yourself staring at multiple correct answers, the answer’s pretty simple: One has to be better than the others. Follow your instincts and select the one they point you to.

12. Know your regulations. Although you’ll be tested on mortgage-loan-origination activities (25 percent), general mortgage knowledge (25 percent) and ethics (15 percent), most questions will involve federal mortgage-related laws (35 percent). So it’s essential that you know the regulations. Several regulations are described by letters — e.g., RESPA is Regulation X, the Equal Credit Opportunity Act is Regulation B, the Truth in Lending Act (TILA) is Regulation Z, etc. Know your regulations, as well as which one is associated with which letter.

You might see a question such as, “According to Regulation Z, which of the following is prohibited?” All the answers will constitute regulatory violations, but only one will violate TILA. So obviously, it’s helpful to know that Regulation Z is TILA.

13. Don’t “memory dump.” Do you plan to memorize information so that you can immediately jot it all down in case an applicable question appears? Don’t.

Memory dumping is not allowed and will earn you a reprimand by the proctor if you’re observed doing it.

14. If there’s too much information, simplify. One clever way the exam tests originators is by presenting questions jam-packed with extraneous information. If you’re overwhelmed by truckloads of details in one particular question, stop, breathe and focus on each answer. Rule them out one-by-one until you find the one that applies.

15. Use the process of elimination. Even if you have no idea what the correct answer is, ruling out one or two greatly improves the odds that your guess will be correct.

16. Study! Whether you’ve worked in the mortgage industry for one month or for 25 years and one month, if you want to pass the NMLS exam, you must study. You may be a seasoned professional, but that doesn’t mean you know that the U.S. Department of Housing and Urban Development regulates RESPA or that loans closed on or after July 29, 1999, require numerous disclosures in accordance with the Homeowners Protection Act.

The test covers more than your origination experience. You might know how to calculate LTV, combined LTV (CLTV) and total LTV (TLTV), but you also must know what an air loan is, as well as the four components of an ARM.

Take the course and then schedule your exam. Allot ample study time, but also schedule the exam soon enough after your class to remember what your instructor taught. And use practice exams; they are invaluable.

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The good news is you’ll learn your grade before you leave the exam room, and it hopefully will be 75 percent or higher. The bad news is that if you fail, you’re not advised of your incorrect answers.

The reason most people fail the NMLS exam is that they don’t study, pay little attention in their pre-licensing class, panic when they don’t understand a question or read the questions too fast. This test is extremely important to your career, so prepare for it seriously. By adhering to these 16 suggestions, you’re bound to be smiling as you leave the testing center. ●