

MLO PRACTICE TESTS

Practice Question 1 - Federal Mortgage-Related Laws

Instructions: Complete these 100 questions in 120 minutes without using study materials. Read each question carefully, eliminate wrong answers, and guess, if necessary, rather than leaving questions blank.

1. RESPA covers loans secured by property with how many dwelling units?
 - A) 1-2 family properties only
 - B) 1-4 family properties
 - C) Single-family homes only
 - D) All residential properties regardless of units

2. Under RESPA, which practice is specifically prohibited?
 - A) Charging competitive fees for services
 - B) Requiring borrowers to use specific service providers chosen by the lender
 - C) Providing borrowers with service provider recommendations
 - D) Disclosing business relationships between service providers

3. The HUD-1 Settlement Statement was replaced by which document?
 - A) Loan Estimate
 - B) Good Faith Estimate
 - C) Closing Disclosure
 - D) Truth in Lending Disclosure

4. RESPA requires escrow account analysis to be performed:
 - A) Monthly

- B) Quarterly
- C) Annually
- D) Biennially

5. Under RESPA, borrowers may inspect the HUD-1 Settlement Statement:

- A) One business day before closing
- B) Three business days before closing
- C) Five business days before closing
- D) At closing only

6. A mortgage originator tells a borrower that women typically don't qualify for jumbo loans. This statement violates:

- A) RESPA
- B) TILA
- C) ECOA
- D) Fair Housing Act

7. Under ECOA, which factor may be considered in credit decisions?

- A) Applicant's age if under 62
- B) Whether the applicant plans to have children
- C) Stability of income from alimony
- D) Applicant's religious beliefs

8. An ECOA violation occurs when a lender:

- A) Requires income verification
- B) Discounts a pregnant woman's income
- C) Considers credit history
- D) Evaluates debt-to-income ratios

9. Under ECOA, creditors must retain records for:

- A) 12 months
- B) 18 months
- C) 25 months
- D) 36 months

10. The Equal Credit Opportunity Act's "elderly" definition refers to applicants aged:

- A) 60 or older
- B) 62 or older
- C) 65 or older
- D) 67 or older

11. Under TILA, which costs are excluded from the finance charge?

- A) Origination fees
- B) Discount points
- C) Appraisal fees
- D) Mortgage broker fees

12. TILA requires creditors to provide disclosures in which order of preference?

- A) English only
- B) Spanish first, then English
- C) The language of the oral discussions
- D) Any language the borrower chooses

13. A borrower refinances their primary residence with a new lender. The rescission period is:

- A) Waived for refinances
- B) 1 business day
- C) 3 business days

D) 5 business days

14. Under TILA, which transaction is exempt from rescission rights?

- A) Refinancing a primary residence
- B) Home equity loan on primary residence
- C) Purchase money mortgage for primary residence
- D) Second mortgage on primary residence

15. TILA's periodic statements for closed-end mortgages must include:

- A) Payment amount only
- B) Outstanding balance only
- C) Payment breakdown and account information
- D) Interest rate changes only

16. A lender makes a loan with an APR of 7.5% when the APOR is 4.8%. This loan:

- A) Is automatically a HOEPA loan
- B) May be a HOEPA loan depending on points and fees
- C) Is not subject to HOEPA
- D) Requires special approval

17. HOEPA's enhanced disclosures must be provided:

- A) At application
- B) 1 business day before closing
- C) 3 business days before closing
- D) At closing

18. Which loan feature is prohibited under HOEPA for high-cost mortgages?

- A) Adjustable rates

- B) Balloon payments within 5 years for most loans
- C) Prepaid interest
- D) Escrow accounts

19. Under TRID, which information is NOT required for a complete application?

- A) Applicant's name
- B) Property address
- C) Estimated property value
- D) Down payment source

20. TRID defines "business day" as:

- A) Monday through Friday only
- B) All days except Sundays and federal holidays
- C) Monday through Saturday
- D) All calendar days

21. A material change under TRID that resets the waiting period includes:

- A) Any change to closing costs
- B) APR increase of 0.125% or more
- C) Change in borrower's employment
- D) Minor correction to property address

22. Under TRID tolerance rules, which costs have unlimited tolerance?

- A) Origination charges
- B) Services borrower cannot shop for
- C) Services borrower can shop for when using lender's provider
- D) Services borrower can shop for when using own provider

23. The Loan Estimate must show:

- A) Final loan terms
- B) Exact closing costs
- C) Estimated terms and costs
- D) Historical rate information

24. TRID replaced which previous disclosures?

- A) Good Faith Estimate only
- B) Truth in Lending disclosure only
- C) Both Good Faith Estimate and initial Truth in Lending disclosure
- D) HUD-1 Settlement Statement only

25. The Fair Housing Act covers which types of housing transactions?

- A) Sales only
- B) Rentals only
- C) Both sales and rentals with limited exemptions
- D) Commercial properties only

26. Under the Fair Housing Act, which advertising practice is prohibited?

- A) Using photos of people
- B) Advertising in multiple languages
- C) Indicating preferences for certain groups
- D) Describing property features

27. Fair Housing Act disability protections require:

- A) All modifications requested by tenants
- B) Reasonable accommodations in policies and procedures
- C) Structural changes to all buildings

D) Special financing for disabled buyers

28. A mortgage company's advertisement states "Perfect for young professionals." This may violate:

A) TILA

B) RESPA

C) Fair Housing Act

D) ECOA

29. HMDA requires reporting of which loan decisions?

A) Approvals only

B) Denials only

C) Applications, approvals, denials, and withdrawals

D) Closed loans only

30. Under HMDA, demographic information collection is:

A) Mandatory for all applicants

B) Voluntary for applicants, mandatory for visual observation

C) Optional for lenders

D) Required only for denied applications

31. HMDA data is used to:

A) Set interest rates

B) Monitor fair lending compliance

C) Determine loan approval

D) Calculate mortgage insurance

32. Which institution must comply with HMDA reporting?

A) All mortgage lenders

- B) Depository institutions with assets over \$48 million
- C) Credit unions only
- D) Mortgage companies only

33. The Community Reinvestment Act applies to:

- A) All mortgage lenders
- B) Depository institutions only
- C) Mortgage brokers only
- D) Real estate agents

34. CRA performance is evaluated based on:

- A) Profit margins only
- B) Loan volume only
- C) Meeting community credit needs
- D) Interest rates offered

35. Under the Servicemembers Civil Relief Act, active duty personnel may receive:

- A) Guaranteed loan approval
- B) Interest rate reduction to 6% on pre-service debts
- C) Waived down payment requirements
- D) Extended loan terms

36. SCRA protections apply to:

- A) All veterans
- B) Active duty military only
- C) Military families only
- D) Active duty military and certain reservists

37. The Flood Disaster Protection Act requires flood insurance for properties in:

- A) All flood zones
- B) Special Flood Hazard Areas
- C) Coastal areas only
- D) High-risk areas determined by lenders

38. Flood insurance must be maintained:

- A) For the first year only
- B) Until the loan is paid off
- C) For 5 years minimum
- D) Only if required by the lender

39. The Secure and Fair Enforcement for Mortgage Licensing Act requires:

- A) Federal licensing of all MLOs
- B) State licensing or federal registration of MLOs
- C) Industry certification only
- D) No specific licensing requirements

40. Under the SAFE Act, which professionals are exempt from licensing requirements?

- A) Mortgage brokers
- B) Loan officers at mortgage companies
- C) Employees of depository institutions
- D) All mortgage professionals

41. The SAFE Act requires MLOs to complete how many hours of pre-licensing education?

- A) 15 hours
- B) 20 hours
- C) 25 hours

D) 30 hours

42. Continuing education under the SAFE Act requires:

A) 6 hours annually

B) 8 hours annually

C) 10 hours annually

D) 12 hours annually

43. The SAFE Act requires which minimum test score?

A) 70%

B) 75%

C) 80%

D) 85%

44. MLO licenses under the SAFE Act must be renewed:

A) Every 6 months

B) Annually

C) Every 2 years

D) Every 3 years

45. The Ability-to-Repay rule requires lenders to verify:

A) Income only

B) Assets only

C) Income, assets, employment, credit history, and DTI

D) Credit score only

46. Which loans are exempt from ATR requirements?

A) All conventional loans

- B) Open-end HELOCs
- C) FHA loans
- D) Investment property loans

47. The ATR rule was established by:

- A) RESPA
- B) TILA
- C) Dodd-Frank Act
- D) SAFE Act

48. A QM safe harbor loan provides lenders with:

- A) Lower capital requirements
- B) Reduced documentation needs
- C) Legal presumption of ATR compliance
- D) Higher profit margins

49. The general DTI limit for QM loans is:

- A) 36%
- B) 41%
- C) 43%
- D) 45%

50. QM loans prohibit which feature?

- A) Adjustable rates
- B) Negative amortization
- C) Fixed rates
- D) Escrow accounts

51. Points and fees for QM loans are limited to:

- A) 2% of loan amount
- B) 3% of loan amount
- C) 5% of loan amount
- D) No specific limit

52. The GSE Patch allows:

- A) DTI ratios above 43% for GSE-eligible loans
- B) Waived income verification
- C) Higher points and fees
- D) Interest-only payments

53. Small creditor QM provisions apply to creditors with:

- A) Under \$1 billion in assets
- B) Under \$2.277 billion in assets
- C) Under \$5 billion in assets
- D) Under \$10 billion in assets

54. Balloon payment QM loans are available from:

- A) All lenders
- B) Large banks only
- C) Small creditors in rural/underserved areas
- D) Credit unions only

55. The CFPB was created by:

- A) Truth in Lending Act
- B) Real Estate Settlement Procedures Act
- C) Dodd-Frank Act

D) Fair Credit Reporting Act

56. The CFPB has supervisory authority over:

- A) All mortgage lenders
- B) Banks with assets over \$10 billion
- C) Credit unions only
- D) State-chartered banks only

57. CFPB examination authority includes:

- A) Setting interest rates
- B) Reviewing compliance management systems
- C) Approving loan applications
- D) Determining property values

58. The CFPB can impose:

- A) Criminal penalties only
- B) Civil money penalties and other enforcement actions
- C) Warning letters only
- D) Educational requirements only

59. Fannie Mae and Freddie Mac are:

- A) Federal agencies
- B) Government-sponsored enterprises
- C) Private companies
- D) State agencies

60. The FHFA regulates:

- A) All mortgage lenders

- B) Fannie Mae and Freddie Mac
- C) FHA loans
- D) VA loans

61. Conforming loan limits are set by:

- A) Individual lenders
- B) FHFA
- C) CFPB
- D) Congress

62. GSE loans must meet:

- A) State requirements only
- B) Federal requirements only
- C) Underwriting guidelines and loan limits
- D) No specific requirements

63. The Home Valuation Code of Conduct ensures:

- A) Accurate property values
- B) Appraisal independence
- C) Lower appraisal costs
- D) Faster appraisal completion

64. Under HVCC, who may order appraisals?

- A) Loan officers
- B) Borrowers
- C) Independent appraisal management companies
- D) Real estate agents

65. The Bank Secrecy Act requires reporting of:

- A) All loan applications
- B) Cash transactions over \$10,000
- C) Credit score information
- D) Employment verification

66. Suspicious Activity Reports (SARs) must be filed for:

- A) All declined applications
- B) Potential money laundering or fraud
- C) Loans over \$1 million
- D) First-time homebuyers

67. The USA PATRIOT Act requires:

- A) Citizenship verification for all borrowers
- B) Customer identification programs
- C) Background checks on all applicants
- D) Enhanced credit requirements

68. Anti-money laundering compliance includes:

- A) Loan approval procedures only
- B) Customer due diligence and monitoring
- C) Interest rate verification
- D) Property inspection requirements

69. The Gramm-Leach-Bliley Act addresses:

- A) Lending discrimination
- B) Financial privacy protection
- C) Mortgage insurance requirements

D) Appraisal standards

70. Privacy notices under GLB must be provided:

- A) At application only
- B) Annually and when relationships begin
- C) At closing only
- D) Upon customer request only

71. The Right to Financial Privacy Act protects:

- A) Lender information
- B) Customer financial records from government access
- C) Credit score data
- D) Property value information

72. The Electronic Signatures in Global and National Commerce Act:

- A) Requires electronic signatures
- B) Validates electronic signatures and records
- C) Prohibits electronic documents
- D) Mandates paper documentation

73. The Fair Debt Collection Practices Act applies to:

- A) Original creditors only
- B) Third-party debt collectors
- C) All mortgage lenders
- D) Government agencies only

74. FDCPA violations in mortgage servicing include:

- A) Collecting valid debts

- B) Providing accurate payoff statements
- C) Harassing borrowers or misrepresenting debt amounts
- D) Following court orders

75. The Real Estate Settlement Procedures Act applies to:

- A) All real estate transactions
- B) Federally related mortgage loans only
- C) Commercial loans only
- D) Cash transactions only

76. RESPA's tolerance requirements under TRID vary based on:

- A) Loan amount only
- B) Borrower credit score
- C) Service category and provider selection
- D) Property location only

77. Affiliated Business Arrangements under RESPA require:

- A) Mandatory referrals
- B) Disclosure at time of referral
- C) Identical pricing
- D) Joint ownership

78. RESPA Section 6 covers:

- A) Kickback prohibitions
- B) Servicing transfer requirements
- C) Escrow account rules
- D) Settlement cost disclosures

79. The Truth in Lending Act's credit card provisions:

- A) Apply to all mortgages
- B) Don't affect mortgage lending
- C) Apply to HELOCs
- D) Only apply to purchase mortgages

80. TILA's higher-priced mortgage loan provisions apply when:

- A) APR exceeds APOR by specified amounts
- B) Loan amount exceeds conforming limits
- C) Borrower has poor credit
- D) Property is in a rural area

81. Under TILA, mortgage advertisements must include:

- A) All possible terms
- B) Representative examples when specific terms are mentioned
- C) Borrower testimonials
- D) Lender's profit margins

82. The Equal Credit Opportunity Act's monitoring provisions require:

- A) Collection of all personal information
- B) Voluntary demographic data collection for government monitoring
- C) Mandatory disclosure of all protected characteristics
- D) Credit score reporting to agencies

83. ECOA's business credit provisions:

- A) Don't apply to business loans
- B) Apply with some modifications
- C) Are identical to consumer credit rules

D) Only apply to small businesses

84. Fair Credit Reporting Act dispute procedures require:

- A) Court filing within 30 days
- B) Investigation within 30 days of dispute
- C) Automatic correction of all disputes
- D) Payment of investigation fees

85. FCRA's permissible purposes for credit reports include:

- A) Employment screening in all cases
- B) Credit transactions, employment (with consent), and insurance
- C) Any business purpose
- D) Personal curiosity

86. The Fair Housing Act's reasonable accommodation requirement:

- A) Applies to all housing
- B) Requires structural modifications
- C) Applies to policies and procedures for disabled persons
- D) Only applies to new construction

87. Home Mortgage Disclosure Act penalties for non-compliance include:

- A) Criminal prosecution only
- B) Civil money penalties and other enforcement actions
- C) Warning letters only
- D) Temporary license suspension

88. The Community Reinvestment Act's public evaluation:

- A) Is confidential

- B) Includes ratings and performance assessments
- C) Only covers lending activities
- D) Is updated monthly

89. Servicemembers Civil Relief Act foreclosure protections:

- A) Prevent all foreclosures
- B) Require court orders during active duty
- C) Only apply to VA loans
- D) Last for one year after service

90. The Flood Disaster Protection Act's continuous coverage requirement:

- A) Ends after 5 years
- B) Continues for the life of the loan
- C) Only applies during high-risk seasons
- D) Is optional after the first year

91. The SAFE Act's unique identifier requirement:

- A) Changes with each employer
- B) Remains with the MLO throughout their career
- C) Is only for state-licensed MLOs
- D) Expires after 5 years

92. Qualified Mortgage safe harbor protection:

- A) Guarantees loan profitability
- B) Provides legal presumption of ATR compliance
- C) Eliminates all lender liability
- D) Reduces capital requirements

93. The Ability-to-Repay rule's income verification requirements:

- A) Allow stated income
- B) Require third-party verification
- C) Are optional for QM loans
- D) Only apply to high-risk borrowers

94. CFPB enforcement actions may include:

- A) Criminal prosecution
- B) Restitution orders and civil money penalties
- C) Property seizure
- D) Automatic license revocation

95. Government-sponsored enterprises operate under:

- A) No federal oversight
- B) FHFA conservatorship
- C) State regulation only
- D) Private management only

96. The Home Valuation Code of Conduct prohibits:

- A) All lender-appraiser communication
- B) Inappropriate influence on appraisal values
- C) Electronic appraisal delivery
- D) Borrower contact with appraisers

97. Bank Secrecy Act compliance in mortgage lending includes:

- A) Reporting all loan applications
- B) Monitoring for suspicious transactions
- C) Verifying all income sources

D) Background checks on all borrowers

98. The Gramm-Leach-Bliley Act's safeguards rule requires:

- A) Federal data storage only
- B) Information security programs
- C) Public disclosure of all data
- D) Customer consent for all uses

99. Electronic Signatures Act provisions:

- A) Require electronic signatures for all mortgages
- B) Validate electronic records and signatures when properly executed
- C) Prohibit paper documentation
- D) Only apply to commercial transactions

100. Fair Debt Collection Practices Act mortgage servicing provisions:

- A) Don't apply to original creditors
- B) Prohibit deceptive collection practices by third parties
- C) Allow unlimited contact with borrowers
- D) Only apply to defaulted loans

Practice Question 2 - Uniform State Content

Instructions: Complete these 100 questions in 120 minutes without using study materials. Read each question carefully, eliminate wrong answers, and guess, if necessary, rather than leaving questions blank.

1. The SAFE Act was enacted as part of which broader legislation?

- A) Dodd-Frank Act
- B) Housing and Economic Recovery Act
- C) Truth in Lending Act
- D) Real Estate Settlement Procedures Act

2. Under the SAFE Act, state-licensed MLOs must renew their licenses:

- A) Every 6 months
- B) Every 12 months
- C) Every 18 months
- D) Every 24 months

3. The SAFE Act requires MLOs to obtain unique identifiers from:

- A) Their employing company
- B) State regulatory agencies
- C) NMLS
- D) Federal banking agencies

4. Which entity maintains the NMLS system?

- A) Federal Reserve
- B) CFPB
- C) Conference of State Bank Supervisors
- D) Department of Housing and Urban Development

5. Pre-licensing education under the SAFE Act must include how many hours of ethics training?

- A) 2 hours
- B) 3 hours
- C) 4 hours
- D) 5 hours

6. The SAFE Act requires how many hours of federal mortgage law education?

- A) 2 hours
- B) 3 hours
- C) 4 hours
- D) 5 hours

7. Continuing education under the SAFE Act must include how many hours of non-traditional mortgage products training?

- A) 1 hour
- B) 2 hours
- C) 3 hours
- D) 4 hours

8. An MLO fails the NMLS test for the fourth consecutive time. How long must they wait before retesting?

- A) 30 days
- B) 90 days
- C) 180 days
- D) 360 days

9. The SAFE Act defines a mortgage loan originator as someone who:

- A) Only processes loan applications
- B) Takes applications and offers or negotiates loan terms for compensation
- C) Only underwrites mortgage loans

D) Only closes mortgage transactions

10. Which professionals are required to be federally registered rather than state licensed?

A) Mortgage brokers

B) Independent loan officers

C) Employees of depository institutions

D) Mortgage company employees

11. Under the SAFE Act, MLO licenses become inactive when:

A) The MLO takes vacation

B) The employing company changes ownership

C) The sponsoring relationship ends

D) Annual fees are late

12. States may impose MLO licensing requirements that are:

A) Less stringent than SAFE Act minimums

B) More stringent than SAFE Act minimums

C) Identical to SAFE Act requirements only

D) Completely unrelated to SAFE Act standards

13. The SAFE Act requires background checks to include:

A) Criminal history only

B) Credit reports only

C) Both criminal history and credit reports

D) Employment history only

14. MLO test scores under the SAFE Act remain valid for:

A) 6 months

- B) 1 year
- C) 2 years
- D) 3 years

15. The SAFE Act requires surety bonds or comparable financial responsibility of at least:

- A) \$10,000
- B) \$20,000
- C) \$25,000
- D) \$50,000

16. Which activities are specifically excluded from the MLO definition under the SAFE Act?

- A) Taking loan applications
- B) Administrative and clerical tasks
- C) Negotiating loan terms
- D) Offering loan products

17. The SAFE Act allows temporary MLO authority for:

- A) New MLOs during training
- B) MLOs transferring between states
- C) Part-time MLOs
- D) Seasonal MLOs

18. Federally registered MLOs must register with:

- A) NMLS directly
- B) Their state regulators
- C) Federal banking agencies supervising their employers
- D) The CFPB

19. The SAFE Act requires MLO unique identifiers to be:

- A) Kept confidential
- B) Displayed in loan advertisements
- C) Shared only with borrowers
- D) Used for internal purposes only

20. Pre-licensing education must be completed from:

- A) Any educational institution
- B) NMLS-approved education providers
- C) Employer training programs only
- D) Online sources exclusively

21. The Conference of State Bank Supervisors developed the model state law with:

- A) Federal Reserve
- B) CFPB
- C) American Association of Residential Mortgage Regulators
- D) National Association of Mortgage Brokers

22. Under the model state law, MLOs must be at least how many years old?

- A) 16 years old
- B) 18 years old
- C) 21 years old
- D) 25 years old

23. The model state law requires MLOs to demonstrate:

- A) Financial responsibility only
- B) Character and fitness only
- C) Both financial responsibility and character and fitness

D) Educational credentials only

24. State licensing laws typically require MLOs to:

A) Work full-time only

B) Live within state boundaries

C) Maintain sponsorship with licensed entities

D) Have college degrees

25. Under the model state law, which criminal convictions may permanently disqualify MLO applicants?

A) Traffic violations

B) Misdemeanor convictions over 10 years old

C) Felony convictions involving dishonesty within 7 years

D) Any conviction regardless of type or timing

26. The model state law allows states to require:

A) Lower education standards than SAFE Act minimums

B) Additional education beyond SAFE Act minimums

C) Different testing requirements that bypass NMLS

D) Elimination of background check requirements

27. MLO application fees under state laws typically:

A) Are standardized across all states

B) Vary by state but must be reasonable

C) Cannot exceed \$100

D) Are set by federal regulation

28. The model state law requires record retention for:

A) 1 year

- B) 2 years
- C) 3 years
- D) 5 years

29. States may exempt from licensing requirements:

- A) All part-time MLOs
- B) MLOs with college degrees
- C) Individuals providing financing to immediate family only
- D) MLOs with over 10 years experience

30. Under the model state law, MLO licenses are:

- A) Transferable between all states
- B) Valid only in the issuing state
- C) Automatically recognized nationwide
- D) Valid in contiguous states only

31. State regulatory authority includes the power to:

- A) Set mortgage interest rates
- B) Investigate consumer complaints
- C) Approve all loan applications
- D) Determine property values

32. The model state law prohibits MLOs from:

- A) Working part-time
- B) Providing false information on applications
- C) Working for multiple employers with proper licensing
- D) Continuing education

33. States must participate in NMLS for:

- A) MLO licensing and oversight
- B) Setting interest rates
- C) Property appraisals
- D) Consumer education only

34. Under state licensing laws, MLO sponsors must be:

- A) Individual supervisors
- B) Licensed mortgage companies or exempt organizations
- C) Real estate brokerages
- D) Any business entity

35. State examination authority includes reviewing:

- A) Loan approval decisions
- B) Interest rates charged
- C) Compliance with licensing requirements
- D) Property values

36. The model state law requires MLOs to notify regulators of:

- A) All loan applications
- B) Changes in employment or material circumstances
- C) Customer complaints
- D) Interest rate changes

37. State enforcement actions may include:

- A) License suspension or revocation
- B) Setting loan terms
- C) Determining creditworthiness

D) Property inspections

38. Under the model state law, continuing education must be completed:

- A) Before license expiration
- B) After license renewal
- C) Every 6 months
- D) Only when required by employers

39. States may require MLO applicants to:

- A) Have mortgage industry experience
- B) Submit fingerprints for background checks
- C) Own property within the state
- D) Work exclusively for one employer

40. The model state law allows license revocation for:

- A) Late renewal payments
- B) Failing to update contact information
- C) Conviction of financial crimes
- D) Working for competitors

41. Net worth requirements under state laws typically range from:

- A) \$5,000 to \$10,000
- B) \$10,000 to \$25,000
- C) \$25,000 to \$100,000
- D) \$100,000 to \$500,000

42. State licensing requires MLOs to maintain:

- A) Errors and omissions insurance only

- B) Surety bonds only
- C) Either surety bonds or net worth requirements
- D) Both insurance and bonds in all cases

43. The model state law requires disclosure of:

- A) All personal financial information
- B) Criminal and regulatory history
- C) Family relationships
- D) Political affiliations

44. States may conduct MLO examinations:

- A) Only with federal approval
- B) Based on risk or complaint-driven factors
- C) Only annually
- D) Only for cause

45. Under state law, MLO licenses typically expire:

- A) On the same date for all licensees
- B) On individual anniversary dates
- C) Every two years regardless of issue date
- D) When employment ends

46. The model state law requires MLOs to:

- A) Work exclusively in mortgage lending
- B) Complete education from approved providers
- C) Live within state boundaries
- D) Have minimum income levels

47. State regulatory cooperation includes:

- A) Sharing examination information with other states
- B) Setting uniform interest rates
- C) Approving all interstate loan applications
- D) Coordinating property appraisals

48. MLO license applications must include:

- A) Personal financial statements
- B) Business plans
- C) Customer references
- D) Marketing materials

49. The model state law allows states to impose:

- A) Lower testing score requirements
- B) Additional professional requirements
- C) Reduced education standards
- D) Elimination of background checks

50. State laws require MLO unique identifiers to be:

- A) Changed annually
- B) Kept confidential from borrowers
- C) Included in loan documentation
- D) Shared only with regulators

51. Under the model state law, temporary licenses may be issued for:

- A) New MLOs during training
- B) Emergency situations
- C) MLOs transferring between states

D) Seasonal employment

52. State enforcement penalties may include:

- A) Criminal prosecution only
- B) Civil money penalties and license actions
- C) Warning letters only
- D) Mandatory retraining only

53. The model state law requires MLOs to:

- A) Work minimum hours per week
- B) Maintain good moral character
- C) Have specific educational degrees
- D) Live in designated areas

54. States may require additional disclosures for:

- A) All loan types
- B) State-specific laws and regulations
- C) Federal requirements only
- D) Company policies only

55. MLO license transfers between states require:

- A) Automatic recognition
- B) New applications in each state
- C) Federal approval only
- D) Reciprocity agreements only

56. The model state law addresses:

- A) Loan approval standards

- B) Interest rate setting
- C) MLO conduct and competency standards
- D) Property valuation methods

57. State regulatory databases must include:

- A) All loan application data
- B) MLO licensing and disciplinary information
- C) Borrower personal information
- D) Lender profit margins

58. Under state laws, MLO education providers must be:

- A) Accredited colleges only
- B) Approved by state regulators
- C) Federal agencies only
- D) Employer training departments only

59. The model state law prohibits:

- A) Part-time MLO employment
- B) Working for multiple licensed entities simultaneously without proper licensing
- C) Continuing education requirements
- D) Background check requirements

60. State licensing fees are typically:

- A) Set by federal regulation
- B) Uniform across all states
- C) Determined by individual states
- D) Based on loan volume

61. MLO complaint procedures under state law include:

- A) Automatic license suspension
- B) Investigation and resolution processes
- C) Immediate license revocation
- D) Transfer to federal authorities

62. The model state law requires states to:

- A) Adopt identical licensing procedures
- B) Maintain minimum standards while allowing additional requirements
- C) Follow federal procedures exactly
- D) Eliminate all state-specific requirements

63. State examination findings may result in:

- A) Automatic license revocation
- B) Corrective action requirements
- C) Federal intervention
- D) Industry shutdown

64. Under the model state law, MLO sponsors are responsible for:

- A) Setting interest rates
- B) Supervising sponsored MLOs
- C) Approving all loan applications
- D) Conducting property appraisals

65. State laws may require MLOs to:

- A) Work exclusively with specific lenders
- B) Complete state-specific education in addition to federal requirements
- C) Avoid continuing education

D) Maintain confidentiality of all licensing information

66. The SAFE Act allows states to:

- A) Reduce federal education requirements
- B) Impose additional testing beyond NMLS requirements
- C) Eliminate background check requirements
- D) Lower minimum age requirements

67. State regulatory coordination includes:

- A) Uniform interest rate setting
- B) Information sharing through NMLS
- C) Joint property appraisals
- D) Consolidated loan approvals

68. MLO license renewal applications typically require:

- A) New background checks
- B) Updated information and continuing education verification
- C) Complete reexamination
- D) New sponsorship agreements

69. The model state law establishes:

- A) Uniform loan approval standards
- B) MLO professional conduct requirements
- C) Standard interest rates
- D) Property valuation methods

70. State enforcement actions are based on:

- A) Loan performance only

- B) Compliance with licensing laws and regulations
- C) Customer satisfaction surveys
- D) Profit margins

71. Under state laws, MLO advertising must include:

- A) All loan terms and conditions
- B) MLO unique identifier
- C) Complete rate sheets
- D) Company profit information

72. The model state law requires reporting of:

- A) All loan applications
- B) Disciplinary actions and criminal convictions
- C) Customer complaints only
- D) Interest rate changes

73. State licensing laws apply to:

- A) All mortgage professionals
- B) MLOs working for non-depository institutions
- C) Federal employees only
- D) Real estate agents only

74. MLO bond requirements under state law:

- A) Are identical in all states
- B) Vary by state and loan volume
- C) Are eliminated by federal regulation
- D) Apply only to new MLOs

75. The model state law allows license suspension for:

- A) Late fee payments only
- B) Violations of licensing requirements
- C) Customer complaints only
- D) Low loan volume

76. State regulatory examinations may include review of:

- A) Individual loan files
- B) MLO compliance with licensing requirements
- C) Borrower creditworthiness
- D) Property market values

77. Under the model state law, MLO education must cover:

- A) Sales techniques only
- B) Federal laws, ethics, and lending standards
- C) Company policies only
- D) Marketing strategies only

78. State laws require MLOs to:

- A) Work minimum hours per month
- B) Maintain accurate records
- C) Approve all loan applications
- D) Set competitive interest rates

79. The SAFE Act preempts state laws that:

- A) Exceed federal minimum standards
- B) Fall below federal minimum standards
- C) Address state-specific issues

D) Include additional education requirements

80. MLO license applications must demonstrate:

- A) Sales experience only
- B) Financial responsibility and character fitness
- C) Property ownership
- D) College education

81. State enforcement proceedings may include:

- A) Criminal prosecution only
- B) Administrative hearings and appeals processes
- C) Automatic penalties only
- D) Federal court proceedings only

82. The model state law requires MLOs to disclose:

- A) All personal financial information
- B) Material changes in circumstances
- C) Customer financial information
- D) Competitor business practices

83. State licensing databases provide:

- A) Confidential information only
- B) Public access to MLO licensing status
- C) Internal regulatory use only
- D) Limited access to employers only

84. Under state laws, MLO complaints may result in:

- A) Automatic license revocation

- B) Investigation and appropriate enforcement action
- C) Immediate federal intervention
- D) Industry-wide penalties

85. The model state law addresses MLO:

- A) Loan approval authority
- B) Professional conduct and competency
- C) Interest rate setting power
- D) Property valuation authority

86. State reciprocity agreements:

- A) Automatically apply to all states
- B) May facilitate MLO licensing across state lines
- C) Are prohibited by federal law
- D) Only apply to federal employees

87. MLO license denials under state law:

- A) Are final and non-appealable
- B) May be appealed through established procedures
- C) Automatically trigger federal review
- D) Require court approval

88. The SAFE Act requires states to provide:

- A) Uniform loan products
- B) NMLS participation and regulatory oversight
- C) Identical interest rates
- D) Federal supervision of all lenders

89. State law violations may result in:

- A) Warning letters only
- B) License sanctions and civil penalties
- C) Automatic federal prosecution
- D) Industry suspension only

90. Under the model state law, MLO education providers must:

- A) Be government agencies
- B) Meet approval standards and requirements
- C) Offer only federal law training
- D) Provide free education to all applicants

91. State regulatory authority includes:

- A) Setting mortgage interest rates
- B) Licensing and supervising MLOs
- C) Approving all loan applications
- D) Determining property values

92. The model state law requires MLOs to:

- A) Work exclusively in residential lending
- B) Comply with all applicable laws and regulations
- C) Maintain minimum loan volume
- D) Avoid customer contact

93. MLO license conditions may include:

- A) Specific loan approval authority
- B) Supervisory or educational requirements
- C) Interest rate setting power

D) Property inspection duties

94. State coordination with federal regulators includes:

A) Joint interest rate setting

B) Sharing regulatory information and coordinating enforcement

C) Uniform loan approval standards

D) Consolidated property appraisals

95. The SAFE Act's state implementation allows:

A) Complete state autonomy

B) State flexibility within federal minimum standards

C) Federal control of all state activities

D) Elimination of state regulation

96. Under state laws, MLO disciplinary actions:

A) Are confidential

B) Are reported to NMLS and may be publicly available

C) Only apply within the issuing state

D) Require federal approval

97. The model state law establishes:

A) Uniform loan products

B) Minimum MLO professional standards

C) Standard interest rates

D) Required property types

98. State MLO licensing supports:

A) Federal regulatory objectives only

- B) Consumer protection and market integrity
- C) Lender profit maximization
- D) Property value increases

99. MLO license renewals require:

- A) Complete reexamination
- B) Continuing education and updated background checks
- C) New sponsorship only
- D) Federal approval

100. The SAFE Act's dual regulatory system includes:

- A) Federal control only
- B) State licensing and federal registration
- C) State control only
- D) Industry self-regulation

Practice Question 3 - General Mortgage Knowledge

Instructions: Complete these 100 questions in 120 minutes without using study materials. Read each question carefully, eliminate wrong answers, and guess, if necessary, rather than leaving questions blank.

1. Which type of loan is guaranteed by the Department of Veterans Affairs?
 - a) FHA loan
 - b) VA loan
 - c) USDA loan
 - d) Conventional loan

2. What is the maximum debt-to-income ratio typically allowed for a qualified mortgage (QM)?
 - a) 36%
 - b) 41%
 - c) 43%
 - d) 45%

3. An FHA loan requires a minimum down payment of:
 - a) 0%
 - b) 3%
 - c) 3.5%
 - d) 5%

4. Which loan program is designed for rural and suburban homebuyers?
 - a) VA loan
 - b) FHA loan
 - c) USDA loan
 - d) Jumbo loan

5. A conventional loan that exceeds the conforming loan limits is called a:

- a) Non-conforming loan
- b) Jumbo loan
- c) Both a and b
- d) Neither a nor b

6. The government-sponsored enterprises (GSEs) that purchase conventional loans are:

- a) Fannie Mae and Freddie Mac
- b) FHA and VA
- c) USDA and HUD
- d) FHFA and CFPB

7. A borrower's housing expense ratio should typically not exceed:

- a) 28%
- b) 31%
- c) 36%
- d) 43%

8. Which type of mortgage has an interest rate that can change over time?

- a) Fixed-rate mortgage
- b) Adjustable-rate mortgage (ARM)
- c) Balloon mortgage
- d) Interest-only mortgage

9. The initial fixed-rate period on a 5/1 ARM is:

- a) 1 year
- b) 5 years
- c) 6 years

d) 30 years

10. PMI (Private Mortgage Insurance) is typically required when the down payment is less than:

a) 10%

b) 15%

c) 20%

d) 25%

11. A reverse mortgage is available to borrowers who are at least:

a) 55 years old

b) 60 years old

c) 62 years old

d) 65 years old

12. The FHA mortgage insurance premium (MIP) is paid:

a) Only upfront

b) Only monthly

c) Both upfront and monthly

d) Neither upfront nor monthly

13. VA funding fee can be financed into the loan amount and is based on:

a) Loan amount only

b) Down payment and military service type

c) Credit score only

d) Debt-to-income ratio

14. An interest-only mortgage means:

a) No interest is charged

- b) Only interest is paid during the initial period
- c) Interest rate is fixed forever
- d) Interest is paid at closing only

15. A balloon mortgage typically has:

- a) No monthly payments
- b) Interest-only payments throughout
- c) Lower monthly payments with a large final payment
- d) Increasing payment amounts

16. The conforming loan limit is set by:

- a) Fannie Mae
- b) Freddie Mac
- c) FHFA (Federal Housing Finance Agency)
- d) FHA

17. A construction-to-permanent loan:

- a) Requires two separate closings
- b) Converts to a permanent mortgage automatically
- c) Is only for investment properties
- d) Cannot be used for primary residences

18. HomeReady and Home Possible are loan programs offered by:

- a) FHA and VA
- b) Fannie Mae and Freddie Mac
- c) USDA and HUD
- d) Local banks only

19. A borrower with a 580 credit score wants an FHA loan. The minimum down payment required is:

- a) 3%
- b) 3.5%
- c) 10%
- d) 20%

20. Non-QM (Non-Qualified Mortgage) loans:

- a) Are prohibited by law
- b) Don't meet QM standards but are still legal
- c) Have no regulations
- d) Are only for investment properties

21. The three major credit bureaus are:

- a) Experian, Equifax, TransUnion
- b) FICO, VantageScore, Experian
- c) Fannie Mae, Freddie Mac, FHA
- d) Experian, FICO, Equifax

22. A FICO score ranges from:

- a) 300-750
- b) 300-800
- c) 300-850
- d) 350-850

23. Which factor has the greatest impact on a credit score?

- a) Length of credit history
- b) Payment history
- c) Credit utilization

d) Types of credit

24. Automated underwriting systems used by GSEs include:

- a) Desktop Underwriter (DU) and Loan Prospector (LP)
- b) TOTAL Scorecard and GUS
- c) Both a and b
- d) Neither a nor b

25. The debt-to-income ratio includes:

- a) Only housing expenses
- b) All monthly debt obligations
- c) Only credit card payments
- d) Only installment loans

26. Compensating factors in underwriting might include:

- a) Large down payment
- b) Significant cash reserves
- c) Stable employment history
- d) All of the above

27. A borrower's employment history should typically show:

- a) 6 months of employment
- b) 1 year of employment
- c) 2 years of employment
- d) 5 years of employment

28. Gift funds for down payment:

- a) Are never allowed

- b) Must be from acceptable sources with proper documentation
- c) Don't require documentation
- d) Can only be used for FHA loans

29. Reserves refer to:

- a) Down payment funds
- b) Closing cost funds
- c) Liquid assets after closing
- d) Credit available on credit cards

30. A co-borrower:

- a) Is not on the loan documents
- b) Shares responsibility for the loan
- c) Only helps with qualifying
- d) Cannot live in the property

31. Self-employed borrowers typically need to provide:

- a) Pay stubs only
- b) Tax returns for 2 years
- c) Bank statements only
- d) Employment verification letter

32. An appraisal is required to determine:

- a) Property taxes
- b) Market value of the property
- c) Borrower's income
- d) Loan amount

33. The loan-to-value (LTV) ratio is:

- a) Loan amount divided by borrower's income
- b) Loan amount divided by property value
- c) Property value divided by loan amount
- d) Down payment divided by property value

34. A borrower with a recent bankruptcy:

- a) Can never get a mortgage
- b) Must wait specific time periods depending on loan type
- c) Can get a loan immediately
- d) Only qualifies for FHA loans

35. Mortgage insurance protects:

- a) The borrower
- b) The lender
- c) The property
- d) The real estate agent

36. A verification of employment (VOE) confirms:

- a) Income amount only
- b) Employment status and income
- c) Job duties only
- d) Benefits package

37. Asset documentation may include:

- a) Bank statements
- b) Investment account statements
- c) Retirement account statements

d) All of the above

38. A cash-out refinance:

- a) Reduces the loan balance
- b) Increases the loan balance above the current mortgage
- c) Keeps the same loan balance
- d) Is only for investment properties

39. The housing expense ratio is calculated as:

- a) Total debt payments \div gross monthly income
- b) Housing payment \div gross monthly income
- c) Housing payment \div net monthly income
- d) Total debt payments \div net monthly income

40. Credit inquiries can be classified as:

- a) Soft inquiries only
- b) Hard inquiries only
- c) Both soft and hard inquiries
- d) There is no classification

41. The Uniform Residential Loan Application is also known as Form:

- a) 1003
- b) 1004
- c) 1005
- d) 1008

42. An appraisal is typically valid for:

- a) 30 days

- b) 60 days
- c) 90 days
- d) 120 days

43. The purpose of title insurance is to protect against:

- a) Property damage
- b) Liens and ownership disputes
- c) Natural disasters
- d) Borrower default

44. A survey shows:

- a) Property boundaries and improvements
- b) Market value
- c) Zoning restrictions
- d) Property taxes

45. The loan estimate must be provided within:

- a) 1 business day of application
- b) 3 business days of application
- c) 5 business days of application
- d) 7 business days of application

46. The closing disclosure must be provided:

- a) At closing
- b) 1 business day before closing
- c) 3 business days before closing
- d) 1 week before closing

47. RESPA requires disclosure of:

- a) Loan terms only
- b) Settlement costs and services
- c) Property condition
- d) Borrower's credit score

48. An escrow account holds funds for:

- a) Principal and interest
- b) Property taxes and insurance
- c) HOA fees only
- d) Utility payments

49. The right of rescission applies to:

- a) Purchase transactions
- b) Refinance transactions on primary residence
- c) Investment property loans
- d) All mortgage transactions

50. A power of attorney allows:

- a) Anyone to sign documents
- b) A designated person to sign on behalf of another
- c) The lender to sign for the borrower
- d) Real estate agents to sign loan documents

51. Flood insurance is required when a property is located in:

- a) Any flood zone
- b) Special Flood Hazard Area (SFHA)
- c) Coastal areas only

d) Areas below sea level

52. A subordination agreement:

- a) Creates a new lien
- b) Changes lien priority
- c) Removes a lien
- d) Transfers ownership

53. The loan application date is important because it determines:

- a) Interest rate lock period
- b) Which regulations apply
- c) Processing timeline
- d) All of the above

54. A commitment letter:

- a) Guarantees loan approval
- b) Indicates preliminary approval subject to conditions
- c) Is the same as a pre-approval
- d) Is issued at closing

55. Mortgage fraud can include:

- a) Income falsification
- b) Property value inflation
- c) Identity theft
- d) All of the above

56. A wet signature means:

- a) Electronic signature

- b) Original ink signature
- c) Signature in the rain
- d) Signature on wet documents

57. The loan file should contain:

- a) Application and supporting documents
- b) Underwriting analysis
- c) Approval conditions and clearances
- d) All of the above

58. A loan modification:

- a) Changes loan terms to avoid foreclosure
- b) Is the same as refinancing
- c) Always reduces the payment
- d) Requires a new appraisal

59. The purpose of loan conditions is to:

- a) Delay closing
- b) Ensure all requirements are met before funding
- c) Increase loan costs
- d) Protect the real estate agent

60. Documentation requirements are determined by:

- a) Loan type and investor guidelines
- b) Borrower preference
- c) Loan officer discretion
- d) State regulations only

61. The HUD-1 Settlement Statement was replaced by:

- a) Loan Estimate
- b) Closing Disclosure
- c) Truth in Lending Disclosure
- d) Good Faith Estimate

62. At closing, the borrower receives:

- a) Keys to the property
- b) Loan documents and disclosures
- c) Title to the property
- d) All of the above

63. The deed transfers:

- a) Loan responsibility
- b) Property ownership
- c) Insurance coverage
- d) Tax obligations

64. Recording the mortgage:

- a) Is optional
- b) Protects the lender's interest
- c) Transfers ownership
- d) Cancels the loan

65. Prorations at closing typically include:

- a) Property taxes and HOA fees
- b) Utilities and insurance
- c) Interest and rents

d) All of the above

66. The loan funding occurs:

- a) Before closing
- b) At closing
- c) After closing conditions are met
- d) 30 days after closing

67. A warranty deed provides:

- a) No protection to the buyer
- b) Limited protection to the buyer
- c) Full protection and guarantees clear title
- d) Protection only against recent defects

68. The mortgage note is:

- a) The security instrument
- b) The promise to repay the loan
- c) The property description
- d) The payment schedule

69. An assignment of mortgage transfers:

- a) Property ownership
- b) The mortgage to another lender
- c) Borrower responsibility
- d) Property taxes

70. The mortgage servicer:

- a) Originated the loan

- b) Collects payments and manages the loan
- c) Owns the property
- d) Insures the loan

71. Escrow analysis is performed:

- a) At origination only
- b) Annually
- c) When payments change
- d) Both b and c

72. A payoff statement shows:

- a) Original loan amount
- b) Current balance and payoff amount
- c) Payment history
- d) Interest rate changes

73. The loan is considered "closed" when:

- a) Documents are signed
- b) Funds are disbursed
- c) The mortgage is recorded
- d) All of the above occur

74. Post-closing quality control reviews:

- a) Are optional
- b) Help ensure compliance and quality
- c) Only check math calculations
- d) Are performed by borrowers

75. If an error is found after closing:

- a) Nothing can be done
- b) A corrective action may be required
- c) The loan must be cancelled
- d) Only the borrower can fix it

76. The mortgage follows the note means:

- a) They are separate documents
- b) Whoever owns the note owns the mortgage
- c) The mortgage is more important
- d) They cannot be separated

77. A satisfaction of mortgage:

- a) Shows the borrower is happy
- b) Releases the lien when the loan is paid off
- c) Increases the loan amount
- d) Changes the interest rate

78. Loan delivery to the investor typically occurs:

- a) Before closing
- b) Within 30 days of closing
- c) After one year
- d) When the borrower requests it

79. The right to cancel (rescission) period is:

- a) 1 business day
- b) 3 business days
- c) 7 calendar days

d) 30 calendar days

80. A cloud on title refers to:

- a) Weather conditions
- b) Unclear ownership or liens
- c) Property location
- d) Appraisal issues

81. A borrower's monthly gross income is \$6,000. Their housing payment is \$1,800. What is their housing expense ratio?

- a) 28%
- b) 30%
- c) 33%
- d) 36%

82. The same borrower has total monthly debt payments of \$2,400. What is their debt-to-income ratio?

- a) 36%
- b) 38%
- c) 40%
- d) 42%

83. A property is valued at \$300,000 with a loan amount of \$240,000. What is the LTV ratio?

- a) 75%
- b) 80%
- c) 85%
- d) 90%

84. If the borrower makes a \$60,000 down payment on the same property, what is the loan amount?

- a) \$240,000

- b) \$250,000
- c) \$260,000
- d) \$270,000

85. An ARM has an initial rate of 3%, a margin of 2.5%, and the index is currently 2.8%. What would the new rate be at adjustment?

- a) 5.3%
- b) 5.5%
- c) 5.8%
- d) 6.0%

86. If the ARM in question 85 has a 2% annual cap, what is the maximum the rate can increase?

- a) 5.0%
- b) 5.3%
- c) 5.5%
- d) 6.0%

87. A borrower pays \$2,000 monthly for PITI. If PI = \$1,200, taxes = \$400, what is the insurance amount?

- a) \$200
- b) \$300
- c) \$400
- d) \$500

88. Using the 28/36 qualifying ratios, a borrower with \$8,000 monthly income can have maximum total debt payments of:

- a) \$2,240
- b) \$2,480
- c) \$2,880
- d) \$3,200

89. The same borrower's maximum housing payment would be:

- a) \$2,240
- b) \$2,480
- c) \$2,880
- d) \$3,200

90. A \$200,000 loan at 4% interest has a monthly payment of \$955. How much interest is paid in the first month?

- a) \$644
- b) \$655
- c) \$666
- d) \$677

91. If 2 discount points are paid on a \$250,000 loan, the cost is:

- a) \$2,500
- b) \$5,000
- c) \$7,500
- d) \$10,000

92. Each discount point typically reduces the interest rate by:

- a) 0.125%
- b) 0.25%
- c) 0.50%
- d) 1.00%

93. A borrower has \$50,000 in assets after closing on a \$300,000 home with a \$240,000 loan. Their reserves equal how many months of payments if $PITI = \$1,800$?

- a) 2.5 months
- b) 2.8 months

- c) 3.0 months
- d) 3.2 months

94. If property taxes are \$3,600 annually, the monthly escrow amount would be:

- a) \$250
- b) \$275
- c) \$300
- d) \$325

95. A borrower refinances from a \$180,000 balance to a \$200,000 loan. The cash-out amount is:

- a) \$15,000
- b) \$18,000
- c) \$20,000
- d) It depends on closing costs

96. Using a 75% LTV for a cash-out refinance, the maximum loan amount on a \$400,000 property is:

- a) \$280,000
- b) \$300,000
- c) \$320,000
- d) \$340,000

97. If closing costs are \$8,000 and the seller pays \$5,000, how much does the buyer pay?

- a) \$3,000
- b) \$5,000
- c) \$8,000
- d) \$13,000

98. A construction loan for \$300,000 converts to permanent financing. If \$280,000 was drawn, what is the new loan balance?

- a) \$280,000
- b) \$300,000
- c) It depends on the conversion terms
- d) \$320,000

99. If a borrower's income is \$72,000 annually, their maximum monthly debt payments using the 36% ratio would be:

- a) \$2,160
- b) \$2,400
- c) \$2,520
- d) \$2,880

100. A balloon payment of \$150,000 is due in 7 years. If the borrower has been making payments of \$1,200 monthly, approximately how much principal has been paid down on a \$200,000 original balance?

- a) \$25,000
- b) \$35,000
- c) \$50,000
- d) It depends on the interest rate

Practice Question 4 - Mortgage Loan Origination Activities

Instructions: Complete these 100 questions in 120 minutes without using study materials. Read each question carefully, eliminate wrong answers, and guess, if necessary, rather than leaving questions blank.

1. Under TRID, when must the Loan Estimate be delivered to the borrower?
 - A) Within 3 business days of receiving the application
 - B) Within 3 calendar days of receiving the application
 - C) Within 7 business days of receiving the application
 - D) At the time of application

2. Which of the following is NOT required to be included on a complete loan application under TRID?
 - A) Borrower's name
 - B) Borrower's income
 - C) Property address
 - D) Borrower's credit score

3. A borrower applies for a mortgage on Monday. What is the latest day the lender can deliver the Loan Estimate?
 - A) Wednesday
 - B) Thursday
 - C) Friday
 - D) The following Monday

4. The Loan Estimate must include all of the following EXCEPT:
 - A) Loan terms
 - B) Projected payments
 - C) Costs at closing
 - D) Final loan approval decision

5. If a borrower indicates they do not want to proceed with the loan application, when can the lender charge an application fee?

- A) Immediately upon receiving the application
- B) After delivering the Loan Estimate
- C) Only if specifically disclosed upfront
- D) Never, if the borrower withdraws

6. Under TRID, which fee can be collected before the borrower receives the Loan Estimate?

- A) Appraisal fee
- B) Credit report fee
- C) Processing fee
- D) Underwriting fee

7. A borrower submits an incomplete application on Friday. The lender receives the missing information on Tuesday. When must the Loan Estimate be delivered?

- A) Friday (3 days from initial application)
- B) Tuesday (same day as completion)
- C) Friday (3 days from completion)
- D) The following Monday

8. The TRID rule applies to which types of loans?

- A) All mortgage loans
- B) Closed-end consumer credit secured by real property
- C) Only purchase money mortgages
- D) Commercial loans only

9. Which of the following would NOT constitute a complete application under TRID?

- A) Application with borrower name, income, SSN, property address, loan amount, and estimate of property value

- B) Application missing only the property address
- C) Application with all six pieces of information but unsigned
- D) Both B and C

10. If a lender receives additional information that was not required for the application, this information:

- A) Must be considered part of the application
- B) Resets the 3-day clock for the Loan Estimate
- C) Does not affect the application completeness
- D) Requires a new Loan Estimate

11. A borrower wants to lock their interest rate. When can this occur?

- A) Only after the Loan Estimate is provided
- B) At any time during the application process
- C) Only after the Closing Disclosure is provided
- D) At the lender's discretion

12. The borrower has the right to receive a copy of the appraisal:

- A) Immediately upon completion
- B) At least 3 days before closing
- C) Only if they request it
- D) Both A and B

13. Which disclosure must be provided within 3 days of application?

- A) Loan Estimate only
- B) Home Loan Toolkit only
- C) Both Loan Estimate and Home Loan Toolkit
- D) Closing Disclosure

14. If a borrower applies for multiple loan programs simultaneously, the lender must:

- A) Provide a separate Loan Estimate for each program
- B) Provide one Loan Estimate for the most likely program
- C) Wait until the borrower chooses a program
- D) Provide estimates verbally only

15. The application fee charged by a lender:

- A) Must be refunded if the loan is denied
- B) Can include any costs the lender chooses
- C) Must be reasonable and only cover actual costs
- D) Cannot exceed \$500

16. A borrower calls to inquire about loan rates and terms. This constitutes:

- A) An application under TRID
- B) Pre-qualification only
- C) A commitment to lend
- D) A rate lock request

17. The Loan Estimate is valid for how many business days?

- A) 7 days
- B) 10 days
- C) 15 days
- D) 30 days

18. Which of the following can cause the Loan Estimate to expire?

- A) Change in borrower's credit score
- B) Change in market interest rates
- C) Passage of time beyond the validity period

D) All of the above

19. If the Loan Estimate expires, the lender:

- A) Must honor the original terms
- B) Can provide a new Loan Estimate with updated terms
- C) Must deny the loan application
- D) Cannot proceed with the application

20. The purpose of the Loan Estimate is to:

- A) Guarantee loan approval
- B) Lock in the interest rate
- C) Help borrowers understand loan terms and shop for loans
- D) Satisfy state licensing requirements

21. When verifying employment, the lender should obtain:

- A) Verbal verification only
- B) Written verification of employment (VOE)
- C) Pay stubs only
- D) Tax returns only

22. Bank statements used for verification should typically cover what time period?

- A) 30 days
- B) 60 days
- C) 90 days
- D) 12 months

23. If a borrower is self-employed, what documentation is typically required?

- A) Pay stubs from the last 30 days

- B) Tax returns for the last 2 years
- C) Bank statements only
- D) Profit and loss statement only

24. Large deposits in a borrower's bank account:

- A) Always disqualify the borrower
- B) Must be sourced and documented
- C) Are ignored if under \$1,000
- D) Only matter for down payment funds

25. The borrower's debt-to-income ratio includes:

- A) Monthly housing payment and monthly debt obligations
- B) Only credit card payments
- C) Only mortgage payment
- D) Annual income divided by annual debt

26. Which of the following is NOT typically considered recurring monthly debt?

- A) Car payment
- B) Student loan payment
- C) Utilities
- D) Credit card minimum payment

27. Gift funds for down payment:

- A) Are never allowed
- B) Must be documented with a gift letter
- C) Can only come from relatives
- D) Must be seasoned for 60 days

28. Asset verification typically requires:

- A) Account statements from the last month
- B) Account statements from the last 2 months
- C) Verification of deposit forms
- D) Either B or C

29. If a borrower has gaps in employment:

- A) They are automatically disqualified
- B) The gaps must be explained and documented
- C) Only gaps over 6 months matter
- D) Gaps are ignored if current employment is stable

30. Credit report inquiries from the last 120 days:

- A) Must be explained by the borrower
- B) Are automatically disqualifying
- C) Only matter if they're mortgage-related
- D) Are ignored in underwriting

31. The borrower's credit score is used to determine:

- A) Loan approval only
- B) Interest rate only
- C) Both loan approval and pricing
- D) Down payment requirements only

32. Rental history verification is required when:

- A) The borrower has never owned a home
- B) The borrower currently rents
- C) The borrower has rented in the last 12 months

D) All of the above

33. Income averaging is used when:

A) Income is stable

B) Income fluctuates

C) Borrower is salary-based

D) Borrower has multiple jobs

34. Overtime income can be considered if:

A) It's been received for 2 years

B) It's likely to continue

C) It's documented on tax returns

D) All of the above

35. Commission income verification requires:

A) Tax returns for 2 years

B) Year-to-date profit/loss statement

C) Both A and B

D) Pay stubs only

36. The purpose of ordering a credit report is to:

A) Verify the borrower's identity

B) Assess creditworthiness and payment history

C) Determine property value

D) Verify employment

37. If a borrower disputes information on their credit report:

A) The loan must be denied

- B) The dispute process must be completed before closing
- C) The disputed item can be excluded from consideration
- D) It depends on the nature of the dispute

38. Seasoned funds refer to:

- A) Funds that have been in accounts for a specified period
- B) Funds from retirement accounts
- C) Gift funds from family
- D) Funds from the sale of assets

39. The borrower's housing history for the past how many years is typically verified?

- A) 1 year
- B) 2 years
- C) 5 years
- D) 7 years

40. When a borrower receives bonus income, it can be considered if:

- A) It's been received for 2 years and is likely to continue
- B) It's over \$10,000 annually
- C) It's guaranteed by the employer
- D) It's documented on one tax return

41. The underwriter's primary responsibility is to:

- A) Sell the loan to investors
- B) Assess risk and determine loan approval
- C) Collect loan payments
- D) Market the loan products

42. Automated underwriting systems (AUS) provide:

- A) Guaranteed loan approval
- B) Preliminary underwriting decisions
- C) Final loan approval
- D) Property valuations

43. A "refer" decision from an AUS means:

- A) The loan is automatically denied
- B) The loan is automatically approved
- C) Manual underwriting is required
- D) More documentation is needed

44. Compensating factors in underwriting:

- A) Always guarantee approval
- B) Can offset weaknesses in the application
- C) Are required for all loans
- D) Only apply to government loans

45. The loan-to-value (LTV) ratio is calculated as:

- A) Loan amount divided by appraised value
- B) Down payment divided by sales price
- C) Monthly payment divided by monthly income
- D) Appraised value divided by loan amount

46. A borrower with a 620 credit score and 5% down payment would likely:

- A) Be automatically approved
- B) Need mortgage insurance
- C) Be automatically denied

D) Need a co-signer

47. The debt-to-income ratio for qualified mortgages generally cannot exceed:

A) 28%

B) 36%

C) 43%

D) 50%

48. Mortgage insurance is typically required when:

A) LTV exceeds 80%

B) LTV exceeds 90%

C) Credit score is below 620

D) DTI exceeds 28%

49. The appraisal is used to determine:

A) The borrower's creditworthiness

B) The property's value for lending purposes

C) The borrower's income

D) The loan interest rate

50. If the appraisal comes in lower than the sales price:

A) The loan is automatically denied

B) The borrower must bring additional funds or renegotiate

C) The lender must increase the loan amount

D) A new appraisal must be ordered

51. Reserves refer to:

A) The lender's capital requirements

- B) Funds the borrower has after closing
- C) The property's equity
- D) The loan's interest rate margin

52. A conditional approval means:

- A) The loan is fully approved
- B) The loan is approved subject to meeting certain conditions
- C) The loan is denied
- D) More time is needed for a decision

53. Final loan approval can only be given when:

- A) The application is received
- B) The appraisal is completed
- C) All conditions are satisfied
- D) The borrower signs the note

54. The underwriter reviews all of the following EXCEPT:

- A) Credit report
- B) Income documentation
- C) Marketing materials
- D) Property appraisal

55. A borrower's cash-to-close includes:

- A) Down payment only
- B) Closing costs only
- C) Down payment and closing costs
- D) First month's payment

56. If additional documentation is required after conditional approval:

- A) The loan is automatically denied
- B) The conditions must be cleared before closing
- C) The borrower can close without providing it
- D) It becomes the title company's responsibility

57. The purpose of title insurance is to:

- A) Protect the lender's interest in the property
- B) Insure the borrower's personal property
- C) Cover the loan payments if borrower defaults
- D) Insure against property damage

58. A clear-to-close decision means:

- A) The property title is clear
- B) All loan conditions have been satisfied
- C) The borrower can move into the property
- D) The loan has been funded

59. Post-closing quality control reviews:

- A) Are optional for lenders
- B) Must be performed on a sample of loans
- C) Only apply to government loans
- D) Are conducted by borrowers

60. The underwriting decision must be based on:

- A) The borrower's race or ethnicity
- B) Objective financial criteria
- C) The loan officer's recommendation

D) The property's neighborhood

61. The Equal Credit Opportunity Act (ECOA) prohibits discrimination based on:

A) Credit score

B) Income level

C) Race, color, religion, national origin

D) Debt-to-income ratio

62. Under ECOA, an adverse action notice must be provided:

A) Within 30 days of taking adverse action

B) Within 60 days of taking adverse action

C) Only if the borrower requests it

D) At the time of application

63. The Fair Credit Reporting Act (FCRA) requires:

A) Lenders to improve borrower credit scores

B) Borrower consent before obtaining credit reports

C) Free credit reports for all borrowers

D) Lenders to dispute credit report errors

64. Under the Truth in Lending Act (TILA), the APR must:

A) Equal the interest rate

B) Include the interest rate and certain other costs

C) Be lower than the interest rate

D) Only include closing costs

65. The right of rescission applies to:

A) All mortgage loans

- B) Purchase money mortgages only
- C) Refinances of primary residences
- D) Investment property loans

66. The rescission period is:

- A) 3 business days
- B) 3 calendar days
- C) 7 business days
- D) 7 calendar days

67. RESPA prohibits:

- A) Real estate commissions
- B) Kickbacks and unearned fees
- C) Home inspections
- D) Title insurance

68. An affiliated business arrangement (AfBA) under RESPA:

- A) Is always prohibited
- B) Requires specific disclosures
- C) Only applies to title companies
- D) Must be approved by regulators

69. The SAFE Act requires mortgage loan originators to be:

- A) Licensed or registered
- B) Bonded
- C) Insured
- D) Certified public accountants

70. Continuing education requirements under the SAFE Act:

- A) Are optional
- B) Must be completed annually
- C) Only apply to loan officers
- D) Are set by individual states

71. The ability-to-repay rule requires lenders to:

- A) Guarantee borrowers can repay
- B) Make a reasonable determination of ability to repay
- C) Provide payment assistance programs
- D) Offer only government loans

72. A qualified mortgage (QM):

- A) Guarantees loan approval
- B) Provides certain legal protections to lenders
- C) Has no documentation requirements
- D) Can have any interest rate

73. Points and fees for a QM generally cannot exceed:

- A) 1% of the loan amount
- B) 2% of the loan amount
- C) 3% of the loan amount
- D) 5% of the loan amount

74. The general QM debt-to-income limit is:

- A) 28%
- B) 36%
- C) 43%

D) 50%

75. Prepayment penalties on QMs:

- A) Are always allowed
- B) Are never allowed
- C) Are restricted
- D) Have no limitations

76. The Homeownership and Equity Protection Act (HOEPA) applies to:

- A) All mortgage loans
- B) High-cost mortgages
- C) Government loans only
- D) Commercial loans

77. A loan is considered high-cost under HOEPA if:

- A) The APR exceeds certain thresholds
- B) Points and fees exceed certain thresholds
- C) Either A or B
- D) The loan amount exceeds \$500,000

78. Privacy notices under the Gramm-Leach-Bliley Act:

- A) Are optional
- B) Must be provided annually
- C) Only apply to banks
- D) Must be provided at closing

79. The Flood Disaster Protection Act requires:

- A) Flood insurance on all properties

- B) Flood insurance on properties in flood zones
- C) Flood zone determinations
- D) Both B and C

80. Anti-money laundering (AML) requirements include:

- A) Customer identification programs
- B) Suspicious activity reporting
- C) Record keeping
- D) All of the above

81. The Closing Disclosure must be provided:

- A) At closing
- B) 3 business days before closing
- C) 1 week before closing
- D) When requested by borrower

82. If the APR increases by more than 1/8% from the Loan Estimate:

- A) The loan can still close as scheduled
- B) A new 3-day waiting period is triggered
- C) The borrower must be notified verbally
- D) No action is required

83. The closing agent's role is to:

- A) Approve the loan
- B) Facilitate the closing and record documents
- C) Underwrite the loan
- D) Market the property

84. At closing, the borrower signs:

- A) The promissory note only
- B) The deed of trust only
- C) Various loan and property documents
- D) Only the Closing Disclosure

85. The promissory note evidences:

- A) The property ownership
- B) The borrower's promise to repay
- C) The property's value
- D) The lender's commitment to lend

86. The deed of trust or mortgage:

- A) Shows property ownership
- B) Secures the loan with the property
- C) Transfers property title
- D) Establishes the loan terms

87. Loan funding occurs when:

- A) The borrower signs the documents
- B) The lender releases the loan proceeds
- C) The property deed is recorded
- D) The borrower receives the keys

88. The right to cancel a refinance loan:

- A) Expires at closing
- B) Extends 3 business days after closing
- C) Is not available

D) Extends 1 week after closing

89. Post-closing compliance includes:

- A) Delivering required notices
- B) Quality control reviews
- C) Proper document retention
- D) All of the above

90. Escrow accounts are used to pay:

- A) Principal and interest
- B) Property taxes and insurance
- C) Homeowner association dues
- D) Utility bills

91. RESPA requires escrow account analysis:

- A) Monthly
- B) Quarterly
- C) Annually
- D) Only when requested

92. The initial escrow account disclosure must be provided:

- A) At application
- B) With the Loan Estimate
- C) At closing
- D) Within 45 days of closing

93. If there's an escrow shortage:

- A) The borrower must pay immediately

- B) The payment can be spread over 12 months
- C) The lender absorbs the cost
- D) The escrow account is cancelled

94. Loan servicing includes:

- A) Collecting payments
- B) Managing escrow accounts
- C) Handling borrower inquiries
- D) All of the above

95. When a loan is sold:

- A) The borrower must approve the sale
- B) The borrower must be notified
- C) The loan terms change
- D) The borrower must requalify

96. A loan modification:

- A) Changes the original loan terms
- B) Requires the borrower's agreement
- C) Must comply with investor guidelines
- D) All of the above

97. Quality control reviews help ensure:

- A) Loan profitability
- B) Compliance with regulations and guidelines
- C) Borrower satisfaction
- D) Property values

98. Document retention requirements:

- A) Vary by loan type and regulation
- B) Are the same for all loans
- C) Are optional
- D) Only apply to denied applications

99. The loan file must contain:

- A) All application documents
- B) All disclosures and notices
- C) All underwriting documentation
- D) All of the above

100. Post-closing quality control may result in:

- A) Loan buyback requirements
- B) Additional documentation requests
- C) Compliance violations
- D) All of the above

Practice Question 5 - Ethics

Instructions: Complete these 100 questions in 120 minutes without using study materials. Read each question carefully, eliminate wrong answers, and guess, if necessary, rather than leaving questions blank.

1. A mortgage loan originator's primary duty is to:

- A) Maximize company profits
- B) Act in the borrower's best interest
- C) Sell as many loans as possible
- D) Follow supervisor instructions only

2. When a borrower asks an MLO to falsify income information on an application, the MLO should:

- A) Comply to help the borrower qualify
- B) Refuse and explain why this is fraudulent
- C) Ask the supervisor for guidance
- D) Suggest the borrower find another lender

3. An MLO discovers an error on a loan application after submission. The ethical response is to:

- A) Ignore it if it's minor
- B) Correct it immediately and notify all parties
- C) Wait to see if underwriting catches it
- D) Only correct it if it helps the borrower

4. A borrower offers an MLO a cash gift for "excellent service." The MLO should:

- A) Accept it graciously
- B) Decline the gift politely
- C) Accept it but report it to compliance
- D) Ask for a larger amount

5. When an MLO has a personal relationship with a real estate agent, they must:

- A) Avoid working with that agent entirely
- B) Disclose the relationship to borrowers
- C) Charge lower fees
- D) Process loans faster

6. An MLO learns confidential information about a borrower's financial situation. This information should be:

- A) Shared with other loan officers
- B) Used only for legitimate business purposes
- C) Discussed with family members
- D) Posted on social media

7. If an MLO cannot answer a borrower's technical question, they should:

- A) Make their best guess
- B) Refer the borrower to someone qualified
- C) Change the subject
- D) Pretend to know the answer

8. A borrower asks an MLO to recommend a real estate agent. The MLO should:

- A) Only recommend agents who pay referral fees
- B) Provide a list without stating preferences
- C) Choose the agent who closes loans fastest
- D) Recommend only family members

9. When advertising loan products, an MLO must ensure advertisements are:

- A) Attention-grabbing above all else
- B) Truthful and not misleading
- C) Focused on lowest possible payments

D) Designed to generate maximum leads

10. An MLO's fiduciary duty means they must:

- A) Prioritize their own financial interests
- B) Act with loyalty and care toward the borrower
- C) Always recommend the most expensive loan
- D) Follow company policy regardless of impact

11. A borrower wants to proceed with a loan that is clearly not in their best interest. The MLO should:

- A) Process the loan anyway
- B) Counsel the borrower about potential risks
- C) Refuse to help the borrower
- D) Charge higher fees for the risky loan

12. When handling borrower complaints, an MLO should:

- A) Ignore complaints to avoid problems
- B) Address them promptly and professionally
- C) Refer all complaints to legal counsel
- D) Blame other parties for any issues

13. An MLO's duty of confidentiality continues:

- A) Only during the loan process
- B) For one year after closing
- C) Indefinitely, with limited exceptions
- D) Until the borrower sells the property

14. If an MLO suspects a borrower is a victim of elder abuse, they should:

- A) Mind their own business

- B) Report their concerns to appropriate authorities
- C) Confront the suspected abuser
- D) Refuse to process the loan

15. When an MLO makes a mistake, the ethical approach is to:

- A) Cover it up to avoid consequences
- B) Acknowledge it and work to correct it
- C) Blame others for the error
- D) Hope no one notices

16. A borrower asks an MLO to expedite processing by skipping required steps. The MLO should:

- A) Comply to provide good customer service
- B) Explain why all steps are necessary
- C) Charge extra for expedited service
- D) Skip only non-essential steps

17. An MLO's continuing education should focus on:

- A) Sales techniques only
- B) Maintaining and improving professional competence
- C) Company products exclusively
- D) Entertainment and networking

18. When dealing with borrowers who have limited English proficiency, an MLO should:

- A) Speak louder and slower
- B) Provide interpretation services or materials
- C) Only work with English-speaking borrowers
- D) Use family members as interpreters

19. A borrower shares personal family problems with an MLO. The MLO should:

- A) Share the information with colleagues
- B) Maintain confidentiality while showing empathy
- C) Use the information for marketing purposes
- D) Gossip about the borrower's situation

20. When an MLO leaves a company, they should:

- A) Take all client files to their new employer
- B) Respect confidentiality and non-compete agreements
- C) Badmouth their former employer
- D) Steal client lists for future business

21. The Equal Credit Opportunity Act prohibits discrimination based on:

- A) Credit score and income
- B) Race, color, religion, national origin, sex, marital status, age
- C) Loan amount and property type
- D) Employment history and assets

22. An MLO notices they consistently deny applications from a particular ethnic group. They should:

- A) Continue current practices
- B) Review their decision-making process for bias
- C) Move to a different geographic area
- D) Raise interest rates for that group

23. A borrower's accent makes them difficult to understand. The MLO should:

- A) Refuse to work with the borrower
- B) Make extra efforts to communicate effectively
- C) Charge higher fees for extra time

D) Require the borrower to bring a translator

24. When evaluating creditworthiness, an MLO should consider:

A) The borrower's appearance and demeanor

B) Only objective financial criteria

C) The neighborhood where the borrower lives

D) Personal opinions about the borrower's lifestyle

25. A borrower mentions they receive public assistance income. The MLO should:

A) Automatically disqualify the application

B) Evaluate the income like any other source

C) Require additional documentation

D) Suggest the borrower find a different lender

26. Fair lending laws require MLOs to:

A) Approve all loan applications

B) Apply consistent standards to all applicants

C) Offer the same interest rate to everyone

D) Only work with certain demographic groups

27. A borrower asks if certain neighborhoods are "safe" for their family. The MLO should:

A) Share personal opinions about different areas

B) Refer them to objective crime statistics

C) Recommend only certain neighborhoods

D) Refuse to discuss neighborhood characteristics

28. When a borrower has a disability, the MLO should:

A) Assume they cannot afford the loan

- B) Provide reasonable accommodations as needed
- C) Charge additional fees for extra services
- D) Require medical documentation of ability to pay

29. An MLO's personal religious beliefs should:

- A) Guide all business decisions
- B) Not influence professional lending decisions
- C) Be shared with all borrowers
- D) Determine which clients to serve

30. Redlining refers to:

- A) Marking documents with red ink
- B) Discriminatory lending practices based on geography
- C) Highlighting important loan terms
- D) Rejecting loans with high interest rates

31. A borrower's immigration status should be considered:

- A) As grounds for automatic denial
- B) Only as it relates to legal ability to contract
- C) To determine appropriate loan products
- D) For setting interest rates

32. When evaluating alimony or child support income:

- A) It should always be excluded
- B) It should be considered if it's reliable and continuing
- C) It requires court verification
- D) It's only valid for female borrowers

33. Age discrimination in lending is prohibited except when:

- A) The borrower is over 65
- B) Age affects legal capacity to contract
- C) The borrower is under 25
- D) Age is never a permissible factor

34. A borrower's zip code should be used to:

- A) Determine creditworthiness
- B) Identify the property location only
- C) Set interest rates
- D) Screen out certain areas

35. When a borrower has a mental health condition:

- A) They cannot qualify for loans
- B) Only their ability to repay should be evaluated
- C) Higher interest rates should be charged
- D) Family members must co-sign

36. Disparate impact in lending occurs when:

- A) Different groups are intentionally treated differently
- B) Neutral policies disproportionately affect protected groups
- C) Interest rates vary by loan amount
- D) Different products are offered to different customers

37. A borrower's family planning intentions should:

- A) Be discussed to assess future income
- B) Never be considered in lending decisions
- C) Determine the loan term

D) Affect the required down payment

38. When reviewing a joint application from an unmarried couple:

- A) Require them to marry before closing
- B) Evaluate based on their combined qualifications
- C) Deny the application automatically
- D) Require separate applications

39. Testing for fair lending compliance may involve:

- A) Sending paired testers with similar profiles
- B) Reviewing social media posts
- C) Conducting neighborhood surveys
- D) Analyzing borrower satisfaction scores

40. A borrower's political affiliations should:

- A) Be documented in the loan file
- B) Have no impact on lending decisions
- C) Determine loan pricing
- D) Affect the approval process

41. An MLO has a financial interest in a title company. When referring borrowers, they must:

- A) Always use that title company
- B) Disclose the financial interest
- C) Charge lower fees
- D) Hide the relationship

42. RESPA prohibits:

- A) Real estate commissions

- B) Kickbacks and unearned referral fees
- C) Home inspections
- D) Appraisal fees

43. A real estate agent offers an MLO \$500 for each referral. The MLO should:

- A) Accept the offer
- B) Decline because it violates RESPA
- C) Negotiate for a higher amount
- D) Report the income to the IRS only

44. An MLO's spouse works for a home inspection company. The MLO should:

- A) Always recommend that company
- B) Disclose the relationship when making referrals
- C) Never mention the company
- D) Charge the borrower less for inspections

45. Yield spread premiums (YSPs) were historically problematic because they:

- A) Increased borrower costs
- B) Created conflicts of interest for loan originators
- C) Reduced lender profits
- D) Complicated the closing process

46. An MLO receives gifts from a settlement service provider. This is:

- A) Always acceptable if disclosed
- B) Prohibited under RESPA
- C) Allowed if under \$25 in value
- D) Permitted for promotional items only

47. A borrower wants to use their family member who is a real estate agent. The MLO should:

- A) Require use of a different agent
- B) Allow it but ensure proper disclosure
- C) Charge additional fees
- D) Refuse to process the loan

48. When an MLO has multiple business relationships with service providers:

- A) All relationships must be disclosed
- B) Only the most profitable ones matter
- C) Disclosure is optional
- D) Only family relationships count

49. An affiliate business arrangement (AfBA) requires:

- A) Government approval
- B) Specific written disclosures
- C) Equal ownership interests
- D) Identical pricing for all customers

50. A borrower asks an MLO to recommend a lawyer. The MLO should:

- A) Only recommend lawyers who pay referral fees
- B) Provide multiple options without receiving compensation
- C) Recommend the cheapest lawyer available
- D) Refuse to provide any recommendations

51. If an MLO has a financial interest in an appraisal company:

- A) They cannot order appraisals from that company
- B) They must disclose the interest but may use the company
- C) They can use the company without disclosure

D) They must charge borrowers less for appraisals

52. Marketing service agreements (MSAs) under RESPA:

- A) Are always prohibited
- B) Must provide services of actual value
- C) Can be used to disguise referral fees
- D) Both B and C

53. A borrower offers to pay an MLO's personal expenses in exchange for loan approval. The MLO should:

- A) Accept the offer discreetly
- B) Refuse and report the attempted bribery
- C) Accept but report it as income
- D) Negotiate for a better offer

54. When an MLO's employer has preferred vendor relationships:

- A) MLOs must use only those vendors
- B) Borrowers should be informed they have choices
- C) Higher fees can be charged
- D) Kickbacks are automatically involved

55. A title company offers an MLO free office space. This arrangement:

- A) Is always acceptable
- B) May violate RESPA if it's for referrals
- C) Is allowed if disclosed to borrowers
- D) Is prohibited under all circumstances

56. An MLO's duty to avoid conflicts of interest means:

- A) They cannot have any business relationships

- B) They must prioritize borrower interests over personal gain
- C) They cannot earn commissions
- D) They must work for only one company

57. Captive reinsurance arrangements in mortgage lending:

- A) Are always prohibited
- B) Must be disclosed if they create conflicts
- C) Only apply to government loans
- D) Are unregulated business practices

58. A borrower's relative works for a mortgage company competitor. The MLO should:

- A) Refuse to work with the borrower
- B) Treat the borrower like any other client
- C) Charge higher fees
- D) Require additional documentation

59. When an MLO receives compensation from multiple sources for one loan:

- A) All sources must be disclosed
- B) Only the largest source matters
- C) Disclosure is optional
- D) It's always prohibited

60. An MLO's financial interest in a loan outcome creates:

- A) Motivation to serve borrowers better
- B) A potential conflict of interest
- C) Higher compensation opportunities
- D) No ethical concerns

61. Mortgage fraud involves:

- A) High interest rates only
- B) Intentional misrepresentation for financial gain
- C) Legitimate business practices
- D) Regulatory compliance issues

62. When an MLO suspects fraud, they should:

- A) Ignore it if it helps the borrower
- B) Report it to appropriate authorities
- C) Confront the suspected party directly
- D) Complete the transaction anyway

63. Straw buyer fraud occurs when:

- A) A borrower uses a false identity
- B) Someone applies for a loan they don't intend to repay
- C) Property values are inflated
- D) Income is overstated on applications

64. An MLO discovers inflated property values on an appraisal. They should:

- A) Use the appraisal anyway
- B) Report the suspicious appraisal
- C) Order a new appraisal from the same appraiser
- D) Reduce the loan amount quietly

65. Air loan fraud involves:

- A) Loans on aircraft
- B) Loans where the property doesn't exist
- C) Loans with variable interest rates

D) Loans with high loan-to-value ratios

66. Identity theft in mortgage applications can be detected by:

- A) Verifying social security numbers
- B) Confirming employment directly
- C) Checking credit report inconsistencies
- D) All of the above

67. Occupancy fraud occurs when:

- A) A borrower lies about intended property use
- B) Property values are misrepresented
- C) Income documentation is falsified
- D) Employment history is fabricated

68. An MLO receives documents that appear altered. They should:

- A) Process the loan using the documents
- B) Investigate the authenticity of the documents
- C) Assume the documents are acceptable
- D) Ask the borrower for an explanation only

69. Chunking fraud involves:

- A) Breaking large loans into smaller ones
- B) Selling overpriced properties to unqualified buyers
- C) Using false employment information
- D) Inflating property values systematically

70. Red flags for potential fraud include:

- A) Borrowers who are very knowledgeable about the process

- B) Last-minute changes to loan applications
- C) Borrowers with excellent credit
- D) Properties in good neighborhoods

71. Silent second mortgages can indicate fraud when:

- A) They are properly disclosed
- B) They are hidden from the primary lender
- C) They have lower interest rates
- D) They are from family members

72. Nominee loans become fraudulent when:

- A) The true borrower's identity is concealed
- B) Interest rates are competitive
- C) Documentation is complete
- D) Properties are owner-occupied

73. An MLO's role in fraud prevention includes:

- A) Ignoring suspicious circumstances
- B) Verifying information and reporting concerns
- C) Helping borrowers falsify documents
- D) Processing loans quickly without questions

74. Income fraud can be detected by:

- A) Verifying employment directly with employers
- B) Reviewing tax returns and pay stubs
- C) Checking for consistent information across documents
- D) All of the above

75. Foreclosure rescue scams often involve:

- A) Legitimate assistance programs
- B) Deceptive practices targeting distressed homeowners
- C) Government-sponsored relief programs
- D) Reduced interest rate modifications

76. An MLO learns a borrower plans to rent out a property claimed as owner-occupied. The MLO should:

- A) Process the loan as originally applied
- B) Require the loan to be processed as investment property
- C) Charge additional fees for the change
- D) Ignore the information

77. Suspicious Activity Reports (SARs) should be filed when:

- A) Any loan is denied
- B) Transactions appear suspicious or involve potential criminal activity
- C) Borrowers ask too many questions
- D) Loan amounts exceed \$100,000

78. Property flipping becomes fraudulent when:

- A) Properties are sold quickly for profit
- B) Artificial price inflation is involved
- C) Properties are renovated before sale
- D) Multiple properties are involved

79. An MLO's duty to report suspected fraud:

- A) Is optional if it might harm the borrower
- B) Is required regardless of potential consequences
- C) Only applies to federal crimes

D) Can be delayed until after closing

80. Mortgage fraud prevention requires:

- A) Trusting all borrower-provided information
- B) Thorough verification and documentation
- C) Processing loans as quickly as possible
- D) Minimizing paperwork requirements

81. An MLO's professional reputation depends on:

- A) The number of loans originated
- B) Consistent ethical behavior and competence
- C) Having the lowest interest rates
- D) Working for the largest company

82. When an MLO cannot meet a promised deadline, they should:

- A) Hope the borrower doesn't notice
- B) Communicate promptly with all affected parties
- C) Blame other service providers
- D) Charge additional fees for delays

83. Professional development for MLOs should include:

- A) Only product training
- B) Ethics, regulations, and industry best practices
- C) Sales techniques exclusively
- D) Entertainment and networking only

84. An MLO's duty to maintain current knowledge includes:

- A) Reading industry publications regularly

- B) Attending continuing education programs
- C) Staying informed about regulatory changes
- D) All of the above

85. When an MLO makes a professional presentation, they should:

- A) Exaggerate benefits to generate interest
- B) Provide accurate and balanced information
- C) Focus only on positive aspects
- D) Avoid discussing potential risks

86. An MLO's record-keeping should be:

- A) Minimal to save time
- B) Thorough and organized for compliance
- C) Limited to required documents only
- D) Focused on profitable transactions only

87. When dealing with borrower complaints, an MLO should:

- A) Defend their actions regardless of merit
- B) Listen actively and respond appropriately
- C) Refer all complaints to management
- D) Ignore complaints unless required to respond

88. An MLO's communication with borrowers should be:

- A) Limited to required disclosures only
- B) Clear, timely, and professional
- C) Focused on closing loans quickly
- D) Minimal to avoid potential problems

89. Professional networking for MLOs should:

- A) Focus only on generating referrals
- B) Build relationships based on mutual respect and ethics
- C) Involve only competitors
- D) Be limited to company employees

90. An MLO's approach to problem-solving should:

- A) Prioritize speed over accuracy
- B) Consider all stakeholders' legitimate interests
- C) Focus only on company profits
- D) Avoid involving other parties

91. When an MLO encounters a situation not covered by specific rules:

- A) They should do whatever seems profitable
- B) They should apply ethical principles and seek guidance
- C) They should ignore the situation
- D) They should make quick decisions without consultation

92. An MLO's professional boundaries include:

- A) Maintaining appropriate relationships with clients
- B) Avoiding personal involvement in clients' non-business affairs
- C) Keeping business and personal relationships separate
- D) All of the above

93. Industry best practices for MLOs include:

- A) Cutting corners to increase efficiency
- B) Following comprehensive compliance procedures
- C) Minimizing documentation requirements

D) Prioritizing loan volume over quality

94. An MLO's responsibility for team members includes:

- A) Ignoring their compliance violations
- B) Promoting ethical behavior and proper training
- C) Covering up their mistakes
- D) Competing with them for business

95. When an MLO discovers industry-wide problems:

- A) They should ignore them if they're not directly involved
- B) They should report concerns to appropriate authorities
- C) They should profit from the knowledge
- D) They should only worry about their own business

96. An MLO's commitment to professional excellence means:

- A) Being satisfied with minimum requirements
- B) Continuously improving knowledge and skills
- C) Focusing only on profitable activities
- D) Avoiding challenging situations

97. Mentoring junior MLOs is:

- A) A waste of time and resources
- B) An important professional responsibility
- C) Only required for supervisors
- D) Unnecessary in competitive markets

98. An MLO's response to industry changes should be:

- A) Resistance to maintain current practices

- B) Adaptation while maintaining ethical standards
- C) Immediate adoption without consideration
- D) Waiting for competitors to change first

99. Professional integrity for an MLO means:

- A) Making decisions based on personal benefit
- B) Consistently doing the right thing even when difficult
- C) Following the most profitable course of action
- D) Avoiding responsibility for outcomes

100. The ultimate measure of an MLO's professional success is:

- A) Annual income generated
- B) Number of loans originated
- C) Positive impact on borrowers' lives while maintaining ethical standards
- D) Recognition from industry organizations

ANSWER EXPLANATIONS

Practice Question 1 - Federal Mortgage-Related Laws

- 1. B** - Insured by federal agencies Explanation: RESPA applies to federally related mortgage loans, which include loans made by lenders whose deposits are insured by federal agencies like FDIC, loans intended for sale to GSEs, or loans made by federally supervised institutions.
- 2. B** - Two months of escrow payments Explanation: RESPA allows lenders to maintain escrow cushions of up to two months of escrow payments, or one-sixth of the estimated annual disbursements, whichever is greater.
- 3. B** - Kickbacks for referrals of settlement service business Explanation: RESPA Section 8 specifically prohibits giving or receiving anything of value for referrals of settlement service business, including kickbacks and unearned fees.
- 4. B** - Within 3 business days of application Explanation: RESPA requires lenders to provide the Special Information Booklet within 3 business days of receiving a loan application for most federally related mortgages.
- 5. A** - 5 business days for acknowledgment, 30 business days for response Explanation: RESPA requires servicers to acknowledge qualified written requests within 5 business days and provide substantive responses within 30 business days.
- 6. B** - Credit history Explanation: ECOA prohibits discrimination based on protected characteristics but allows consideration of legitimate creditworthiness factors like credit history, income, and employment.
- 7. B** - 30 days Explanation: ECOA requires adverse action notices to be provided within 30 days of taking adverse action or within 30 days after receiving a complete application.
- 8. B** - An applicant's creditworthiness Explanation: ECOA allows and expects creditors to consider legitimate creditworthiness factors while prohibiting consideration of protected characteristics.
- 9. C** - 62 years or older Explanation: ECOA allows age-related inquiries and considerations for applicants who are 62 years or older, recognizing potential retirement income issues.
- 10. C** - The applicant lives in a community property state Explanation: ECOA permits marital status inquiries in community property states, when spousal income is considered, or when both spouses will be liable for the debt.
- 11. B** - Annual Percentage Rate Explanation: TILA's primary disclosure requirement is the Annual Percentage Rate (APR), which represents the true cost of credit including interest and finance charges.
- 12. C** - Discount points Explanation: TILA's finance charge includes discount points and other fees charged by creditors as conditions of credit, but excludes third-party costs like taxes and insurance.

- 13. C** - Refinances of primary residences Explanation: TILA's right of rescission applies to refinances and home equity loans secured by the borrower's primary residence, but not to purchase money mortgages.
- 14. B** - 3 business days Explanation: TILA provides borrowers with 3 business days to exercise the right of rescission for covered transactions.
- 15. D** - Whichever occurs last among signing, funding, or disclosure delivery Explanation: The rescission period begins when the last of these three events occurs: signing the credit contract, receiving loan funds, or receiving required TILA disclosures.
- 16. B** - 6.5 percentage points for first liens Explanation: HOEPA coverage is triggered when the APR for a first-lien mortgage exceeds the Average Prime Offer Rate (APOR) by 6.5 percentage points or more.
- 17. B** - 5% of the loan amount Explanation: HOEPA's points and fees test is triggered when total points and fees exceed 5% of the loan amount for loans above specified thresholds.
- 18. B** - Prepayment penalties in most cases Explanation: HOEPA prohibits prepayment penalties for most high-cost mortgages, with very limited exceptions for certain circumstances.
- 19. B** - 3 business days of application Explanation: TRID requires the Loan Estimate to be delivered within 3 business days of receiving a complete application.
- 20. B** - 3 business days Explanation: The Closing Disclosure must be provided at least 3 business days before consummation under TRID requirements.
- 21. C** - 6 pieces of information Explanation: A complete application under TRID consists of six pieces of information: name, monthly income, SSN, property address, estimated property value, and loan amount.
- 22. B** - Change in loan product Explanation: Material changes requiring new waiting periods include changes in loan product, addition of prepayment penalties, or significant APR increases.
- 23. B** - Lender fees Explanation: Zero tolerance applies to lender fees, transfer taxes, and services where the creditor requires use of specific providers.
- 24. C** - Recording fees and third-party services borrower can shop for Explanation: The 10% cumulative tolerance applies to recording fees and third-party services where borrowers can shop but choose providers identified by the creditor.
- 25. C** - Disability Explanation: The Fair Housing Act prohibits discrimination based on race, color, religion, sex, national origin, familial status, and disability.
- 26. C** - Both CFPB and HUD Explanation: Fair Housing Act enforcement is shared between the CFPB (for lending activities) and HUD (for housing activities).
- 27. B** - Families with children under 18 and pregnant women Explanation: Familial status protection covers families with children under 18 and pregnant women, regardless of marital status.

- 28. C** - Fair Housing Act Explanation: Advertising that indicates preferences for certain age groups may violate Fair Housing Act prohibitions against discriminatory advertising.
- 29. C** - Applications, approvals, denials, and withdrawals Explanation: HMDA requires reporting of all application activity including originations, denials, withdrawals, and files closed for incompleteness.
- 30. B** - Voluntary for applicants, mandatory for visual observation Explanation: HMDA allows voluntary self-identification by applicants, but requires lenders to note demographic characteristics through visual observation if not provided.
- 31. B** - Monitor fair lending compliance Explanation: HMDA data is used primarily to monitor lending patterns for fair lending compliance and community development analysis.
- 32. B** - Depository institutions with assets over \$48 million Explanation: HMDA applies to depository institutions with assets exceeding specified thresholds and non-depository lenders meeting certain criteria.
- 33. B** - Depository institutions only Explanation: The Community Reinvestment Act applies specifically to depository institutions, not mortgage brokers or other non-depository lenders.
- 34. C** - Meeting community credit needs Explanation: CRA evaluates how well banks meet the credit needs of their entire communities, including low and moderate-income areas.
- 35. B** - Interest rate reduction to 6% on pre-service debts Explanation: SCRA provides interest rate relief, reducing rates to 6% on debts incurred before military service when ability to pay is materially affected.
- 36. D** - Active duty military and certain reservists Explanation: SCRA protections apply to active duty military personnel and reservists called to active duty for more than 30 days.
- 37. B** - Special Flood Hazard Areas Explanation: The Flood Disaster Protection Act requires flood insurance for properties located in Special Flood Hazard Areas (SFHAs).
- 38. B** - Until the loan is paid off Explanation: Flood insurance must be maintained for the life of the loan when the property is located in a Special Flood Hazard Area.
- 39. B** - State licensing or federal registration of MLOs Explanation: The SAFE Act creates a dual system where MLOs are either state-licensed (non-depository institutions) or federally registered (depository institutions).
- 40. C** - Employees of depository institutions Explanation: Employees of federally supervised depository institutions are exempt from state licensing and instead register with federal banking agencies.
- 41. B** - 20 hours Explanation: The SAFE Act requires a minimum of 20 hours of pre-licensing education, including specific topics in federal law, ethics, and lending standards.
- 42. B** - 8 hours annually Explanation: The SAFE Act mandates 8 hours of continuing education annually to maintain MLO licenses.

- 43. B - 75%** Explanation: The SAFE Act requires MLOs to achieve a passing score of at least 75% on the national licensing examination.
- 44. B - Annually** Explanation: MLO licenses must be renewed annually, though states may set specific renewal dates and requirements.
- 45. C - Income, assets, employment, credit history, and DTI** Explanation: The ATR rule requires comprehensive verification of borrower ability to repay including all major financial factors.
- 46. B - Open-end HELOCs** Explanation: Open-end home equity lines of credit are exempt from ATR requirements, though they have separate regulatory requirements.
- 47. C - Dodd-Frank Act** Explanation: The Ability-to-Repay rule was established by the Dodd-Frank Act and implemented through amendments to TILA.
- 48. C - Legal presumption of ATR compliance** Explanation: QM safe harbor provides a conclusive legal presumption that the creditor verified the borrower's ability to repay.
- 49. C - 43%** Explanation: The general QM rule limits debt-to-income ratios to 43%, though the GSE Patch allows higher ratios for eligible loans.
- 50. B - Negative amortization** Explanation: QM loans prohibit negative amortization, interest-only payments, balloon payments (for most loans), and terms exceeding 30 years.
- 51. B - 3% of loan amount** Explanation: QM loans limit points and fees to 3% of the loan amount for loans above specified thresholds.
- 52. A - DTI ratios above 43% for GSE-eligible loans** Explanation: The GSE Patch allows DTI ratios above 43% for loans eligible for GSE purchase under automated underwriting approval.
- 53. B - Under \$2.277 billion in assets** Explanation: Small creditor provisions apply to institutions with assets of \$2.277 billion or less and originating 2,000 or fewer first-lien mortgages annually.
- 54. C - Small creditors in rural/underserved areas** Explanation: Balloon payment QM loans are available from small creditors operating in rural or underserved areas meeting specific criteria.
- 55. C - Dodd-Frank Act** Explanation: The Consumer Financial Protection Bureau was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act.
- 56. B - Banks with assets over \$10 billion** Explanation: The CFPB has supervisory authority over depository institutions with assets exceeding \$10 billion and non-depository mortgage lenders.
- 57. B - Reviewing compliance management systems** Explanation: CFPB examinations assess compliance management systems, fair lending practices, and consumer protection procedures.

- 58. B** - Civil money penalties and other enforcement actions Explanation: The CFPB can impose civil money penalties, cease and desist orders, and require consumer restitution, but not criminal penalties.
- 59. B** - Government-sponsored enterprises Explanation: Fannie Mae and Freddie Mac are government-sponsored enterprises - privately owned but federally chartered entities.
- 60. B** - Fannie Mae and Freddie Mac Explanation: The Federal Housing Finance Agency regulates and oversees Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System.
- 61. B** - FHFA Explanation: The Federal Housing Finance Agency establishes conforming loan limits annually based on housing price changes.
- 62. C** - Underwriting guidelines and loan limits Explanation: GSE loans must meet specific underwriting guidelines and fall within conforming loan limits to be eligible for GSE purchase.
- 63. B** - Appraisal independence Explanation: The Home Valuation Code of Conduct ensures appraisal independence by separating loan production from valuation functions.
- 64. C** - Independent appraisal management companies Explanation: HVCC requires appraisal ordering through independent parties to maintain separation from loan production staff.
- 65. B** - Cash transactions over \$10,000 Explanation: The Bank Secrecy Act requires reporting of cash transactions exceeding \$10,000 and suspicious activity reports for potential money laundering.
- 66. B** - Potential money laundering or fraud Explanation: Suspicious Activity Reports must be filed when financial institutions detect potential money laundering, fraud, or other suspicious activities.
- 67. B** - Customer identification programs Explanation: The USA PATRIOT Act requires financial institutions to implement customer identification programs to verify customer identities.
- 68. B** - Customer due diligence and monitoring Explanation: Anti-money laundering compliance includes customer due diligence, ongoing monitoring, and reporting of suspicious activities.
- 69. B** - Financial privacy protection Explanation: The Gramm-Leach-Bliley Act addresses financial privacy protection, requiring privacy notices and safeguarding of customer information.
- 70. B** - Annually and when relationships begin Explanation: GLB requires privacy notices when customer relationships begin and annually thereafter, with additional notices for material changes.
- 71. B** - Customer financial records from government access Explanation: The Right to Financial Privacy Act protects customer financial records from government access except under specific legal procedures.
- 72. B** - Validates electronic signatures and records Explanation: The Electronic Signatures Act validates electronic signatures and records when properly executed, giving them the same legal effect as paper documents.

- 73. B** - Third-party debt collectors Explanation: The Fair Debt Collection Practices Act applies to third-party debt collectors, not original creditors collecting their own debts.
- 74. C** - Harassing borrowers or misrepresenting debt amounts Explanation: FDCPA violations include harassment, false representations, and unfair collection practices by third-party collectors.
- 75. B** - Federally related mortgage loans only Explanation: RESPA applies specifically to federally related mortgage loans, not all real estate transactions or cash purchases.
- 76. C** - Service category and provider selection Explanation: TRID tolerance rules vary based on the category of service and whether borrowers shop for their own providers.
- 77. B** - Disclosure at time of referral Explanation: Affiliated Business Arrangements require disclosure at the time of referral, explaining the relationship and borrower's right to shop.
- 78. B** - Servicing transfer requirements Explanation: RESPA Section 6 covers loan servicing transfer requirements including advance notice and borrower rights.
- 79. C** - Apply to HELOCs Explanation: TILA's credit card provisions apply to home equity lines of credit, which are considered open-end credit like credit cards.
- 80. A** - APR exceeds APOR by specified amounts Explanation: TILA's higher-priced mortgage loan provisions are triggered when APR exceeds Average Prime Offer Rate by specified thresholds.
- 81. B** - Representative examples when specific terms are mentioned Explanation: TILA requires mortgage advertisements to include representative examples and required disclosures when specific credit terms are mentioned.
- 82. B** - Voluntary demographic data collection for government monitoring Explanation: ECOA allows voluntary collection of demographic information for government monitoring purposes under certain regulations like HMDA.
- 83. B** - Apply with some modifications Explanation: ECOA applies to business credit with some modifications, recognizing differences between consumer and commercial lending.
- 84. B** - Investigation within 30 days of dispute Explanation: FCRA requires credit reporting agencies to investigate disputes within 30 days and correct or remove inaccurate information.
- 85. B** - Credit transactions, employment (with consent), and insurance Explanation: FCRA permits credit report access for legitimate purposes including credit decisions, employment screening (with consent), and insurance underwriting.
- 86. C** - Applies to policies and procedures for disabled persons Explanation: Fair Housing Act reasonable accommodation requirements apply to policies and procedures, not necessarily structural modifications.

87. B - Civil money penalties and other enforcement actions Explanation: HMDA violations can result in civil money penalties, enforcement actions, and other regulatory sanctions.

88. B - Includes ratings and performance assessments Explanation: CRA evaluations are public and include performance ratings and detailed assessments of community lending activities.

89. B - Require court orders during active duty Explanation: SCRA requires court proceedings for foreclosures against active duty service members, providing additional legal protections.

90. B - Continues for the life of the loan Explanation: Flood insurance must be maintained continuously for the life of the loan when properties are in Special Flood Hazard Areas.

91. B - Remains with the MLO throughout their career Explanation: NMLS unique identifiers remain with MLOs throughout their careers, regardless of employer changes or relocations.

92. B - Provides legal presumption of ATR compliance Explanation: QM safe harbor creates a conclusive legal presumption that lenders verified borrower ability to repay, providing strong litigation protection.

93. B - Require third-party verification Explanation: The ATR rule requires verification of income using reasonably reliable third-party records, prohibiting stated income approaches.

94. B - Restitution orders and civil money penalties Explanation: CFPB enforcement actions can include restitution to harmed consumers, civil money penalties, and other regulatory sanctions.

95. B - FHFA conservatorship Explanation: Fannie Mae and Freddie Mac operate under FHFA conservatorship, with FHFA controlling their operations and strategic direction.

96. B - Inappropriate influence on appraisal values Explanation: HVCC prohibits inappropriate influence on appraisal values while allowing necessary communication about property access and transaction timing.

97. B - Monitoring for suspicious transactions Explanation: BSA compliance includes monitoring transactions for suspicious activity and reporting potential money laundering or fraud.

98. B - Information security programs Explanation: The GLB Safeguards Rule requires financial institutions to implement comprehensive information security programs to protect customer data.

99. B - Validate electronic records and signatures when properly executed Explanation: The Electronic Signatures Act gives electronic signatures and records the same legal validity as paper documents when properly executed.

100. B - Prohibit deceptive collection practices by third parties Explanation: FDCPA prohibits deceptive, abusive, and unfair debt collection practices by third-party collectors in mortgage servicing and other contexts.

Practice Question 2 - Uniform State Content

- 1. B - Housing and Economic Recovery Act Explanation:** The SAFE Act was enacted in 2008 as part of the Housing and Economic Recovery Act, not the later Dodd-Frank Act.
- 2. B - Every 12 months Explanation:** The SAFE Act requires MLO licenses to be renewed annually, though states may set specific renewal dates.
- 3. C - NMLS Explanation:** The NMLS system issues unique identifiers to all MLOs that remain with them throughout their careers regardless of employer changes.
- 4. C - Conference of State Bank Supervisors Explanation:** CSBS, in partnership with AARMR, developed and maintains the NMLS system for state regulatory coordination.
- 5. B - 3 hours Explanation:** Pre-licensing education must include 3 hours of ethics instruction covering fraud, consumer protection, and fair lending issues.
- 6. B - 3 hours Explanation:** The 20-hour pre-licensing requirement includes 3 hours of federal mortgage-related laws including RESPA, TILA, ECOA, and Fair Housing Act.
- 7. B - 2 hours Explanation:** Annual continuing education must include 2 hours on non-traditional mortgage products to maintain awareness of product risks.
- 8. C - 180 days Explanation:** After three consecutive test failures, MLOs must wait 180 days before being eligible to retake the exam.
- 9. B - Takes applications and offers or negotiates loan terms for compensation Explanation:** The SAFE Act defines MLOs as individuals who take applications, offer terms, or negotiate terms for compensation.
- 10. C - Employees of depository institutions Explanation:** Employees of federally supervised depository institutions register with federal agencies rather than obtaining state licenses.
- 11. C - The sponsoring relationship ends Explanation:** MLO licenses become inactive when the sponsoring relationship with their employer ends, requiring new sponsorship to reactivate.
- 12. B - More stringent than SAFE Act minimums Explanation:** The SAFE Act establishes minimum federal standards but allows states to impose additional, more stringent requirements.
- 13. C - Both criminal history and credit reports Explanation:** The SAFE Act requires comprehensive background checks including both criminal history and credit reports for character and fitness evaluation.
- 14. D - 3 years Explanation:** Passing test scores remain valid for 3 years, allowing time for license application processing and approval.
- 15. B - \$20,000 Explanation:** The SAFE Act requires surety bonds or other financial responsibility mechanisms of at least \$20,000, though states may require more.

- 16. B** - Administrative and clerical tasks Explanation: The SAFE Act specifically excludes individuals performing only administrative or clerical tasks from MLO licensing requirements.
- 17. B** - MLOs transferring between states Explanation: Temporary authority provisions specifically address MLOs transferring between states while new state licenses are processed.
- 18. C** - Federal banking agencies supervising their employers Explanation: Federally registered MLOs register with the federal banking agencies that supervise their employing institutions.
- 19. B** - Displayed in loan advertisements Explanation: MLO unique identifiers must be clearly displayed in advertisements and loan documentation for consumer verification.
- 20. B** - NMLS-approved education providers Explanation: Pre-licensing education must be completed through providers approved by NMLS to ensure quality and content standards.
- 21. C** - American Association of Residential Mortgage Regulators Explanation: CSBS partnered with AARMR to develop the model state law that most states have adopted for SAFE Act implementation.
- 22. B** - 18 years old Explanation: The model state law typically requires MLO applicants to be at least 18 years old, though some states may set higher age requirements.
- 23. C** - Both financial responsibility and character and fitness Explanation: The model state law requires MLOs to demonstrate both financial responsibility and character and fitness through background checks and financial documentation.
- 24. C** - Maintain sponsorship with licensed entities Explanation: MLOs must be sponsored by licensed mortgage companies, depository institutions, or their subsidiaries to maintain active licenses.
- 25. C** - Felony convictions involving dishonesty within 7 years Explanation: Recent felony convictions involving dishonesty, breach of trust, or money laundering within 7 years may permanently disqualify MLO applicants.
- 26. B** - Additional education beyond SAFE Act minimums Explanation: States may impose additional education requirements beyond the 20-hour federal minimum while maintaining SAFE Act compliance.
- 27. B** - Vary by state but must be reasonable Explanation: MLO application fees are set by individual states and vary significantly, but must be reasonable and not create barriers to entry.
- 28. C** - 3 years Explanation: The model state law typically requires MLOs and companies to maintain records for 3 years from the date of origination or application.
- 29. C** - Individuals providing financing to immediate family only Explanation: The SAFE Act exempts individuals who provide financing only to immediate family members from MLO licensing requirements.
- 30. B** - Valid only in the issuing state Explanation: MLO licenses are state-specific and valid only in the issuing state, though some states have reciprocity agreements.

- 31. B** - Investigate consumer complaints Explanation: State regulatory authority includes investigating consumer complaints against licensed MLOs and taking appropriate enforcement action.
- 32. B** - Providing false information on applications Explanation: The model state law prohibits providing false or misleading information on license applications or to regulatory authorities.
- 33. A** - MLO licensing and oversight Explanation: States must participate in NMLS for MLO licensing, registration, and regulatory oversight as required by the SAFE Act.
- 34. B** - Licensed mortgage companies or exempt organizations Explanation: MLO sponsors must be licensed mortgage companies, depository institutions, or their subsidiaries with proper regulatory oversight.
- 35. C** - Compliance with licensing requirements Explanation: State examination authority focuses on reviewing compliance with licensing laws, regulations, and professional conduct standards.
- 36. B** - Changes in employment or material circumstances Explanation: MLOs must notify regulators of employment changes, criminal charges, regulatory actions, and other material changes affecting their licensing status.
- 37. A** - License suspension or revocation Explanation: State enforcement actions include license suspension, revocation, civil money penalties, and other regulatory sanctions.
- 38. A** - Before license expiration Explanation: Continuing education must be completed before the license expiration date each year to maintain eligibility for renewal.
- 39. B** - Submit fingerprints for background checks Explanation: States may require fingerprint submission for criminal background check processing as part of the licensing application.
- 40. C** - Conviction of financial crimes Explanation: Conviction of financial crimes, fraud, or other violations of professional conduct standards may result in license revocation.
- 41. B** - \$10,000 to \$25,000 Explanation: Net worth requirements typically range from \$10,000 to \$25,000, though some states may require higher amounts based on business volume.
- 42. C** - Either surety bonds or net worth requirements Explanation: States typically require either surety bonds or demonstration of minimum net worth to meet financial responsibility requirements.
- 43. B** - Criminal and regulatory history Explanation: MLO applicants must disclose criminal convictions and regulatory actions taken against them in any jurisdiction.
- 44. B** - Based on risk or complaint-driven factors Explanation: States may conduct examinations based on risk assessment, consumer complaints, or other factors rather than routine schedules.
- 45. A** - On the same date for all licensees Explanation: Most states set uniform expiration dates for all MLO licenses to streamline renewal processing and regulatory oversight.

- 46. B** - Complete education from approved providers Explanation: The model state law requires MLOs to complete education from NMLS-approved providers meeting established quality standards.
- 47. A** - Sharing examination information with other states Explanation: State regulatory cooperation includes sharing examination findings, disciplinary actions, and other regulatory information through NMLS.
- 48. A** - Personal financial statements Explanation: MLO license applications typically require personal financial statements to demonstrate financial responsibility and character fitness.
- 49. B** - Additional professional requirements Explanation: States may impose additional professional requirements such as higher education standards, additional testing, or enhanced background checks.
- 50. C** - Included in loan documentation Explanation: MLO unique identifiers must be included in loan documentation and advertising to enable consumer verification of licensing status.
- 51. C** - MLOs transferring between states Explanation: Some states may issue temporary licenses to facilitate MLO transfers between states while permanent license applications are processed.
- 52. B** - Civil money penalties and license actions Explanation: State enforcement includes civil money penalties, license suspension or revocation, and other administrative sanctions.
- 53. B** - Maintain good moral character Explanation: The model state law requires MLOs to maintain good moral character and fitness as demonstrated through background checks and conduct.
- 54. B** - State-specific laws and regulations Explanation: States may require additional disclosures for state-specific laws, regulations, or consumer protection requirements.
- 55. B** - New applications in each state Explanation: MLO licensing typically requires new applications in each state where business will be conducted, though some reciprocity agreements exist.
- 56. C** - MLO conduct and competency standards Explanation: The model state law establishes professional conduct standards, competency requirements, and regulatory oversight mechanisms.
- 57. B** - MLO licensing and disciplinary information Explanation: State regulatory databases maintain MLO licensing information, disciplinary actions, and other regulatory data accessible through NMLS.
- 58. B** - Approved by state regulators Explanation: MLO education providers must be approved by state regulators and meet NMLS standards for content quality and delivery.
- 59. B** - Working for multiple licensed entities simultaneously without proper licensing Explanation: The model state law generally prohibits MLOs from working for multiple employers simultaneously without proper licensing in each case.
- 60. C** - Determined by individual states Explanation: State licensing fees are set by individual states and vary based on state requirements, though they must be reasonable.

- 61. B** - Investigation and resolution processes Explanation: State complaint procedures include investigation processes, resolution mechanisms, and appropriate enforcement actions based on findings.
- 62. B** - Maintain minimum standards while allowing additional requirements Explanation: The model state law provides minimum standards that states can adopt while allowing additional requirements for enhanced consumer protection.
- 63. B** - Corrective action requirements Explanation: State examination findings may result in corrective action requirements, additional education, enhanced supervision, or other remedial measures.
- 64. B** - Supervising sponsored MLOs Explanation: MLO sponsors are responsible for supervising their sponsored MLOs and ensuring compliance with applicable laws and regulations.
- 65. B** - Complete state-specific education in addition to federal requirements Explanation: States may require additional education covering state-specific laws, regulations, and consumer protection requirements.
- 66. B** - Impose additional testing beyond NMLS requirements Explanation: The SAFE Act allows states to impose additional testing requirements beyond the national NMLS examination.
- 67. B** - Information sharing through NMLS Explanation: State regulatory coordination includes sharing licensing information, disciplinary actions, and examination findings through the NMLS system.
- 68. B** - Updated information and continuing education verification Explanation: License renewal typically requires updated background information and verification of continuing education completion.
- 69. B** - MLO professional conduct requirements Explanation: The model state law establishes professional conduct standards, ethical requirements, and competency expectations for MLOs.
- 70. B** - Compliance with licensing laws and regulations Explanation: State enforcement actions are based on compliance with licensing laws, regulations, and professional conduct standards.
- 71. B** - MLO unique identifier Explanation: State laws require MLO advertising to include unique identifiers to enable consumer verification of licensing status.
- 72. B** - Disciplinary actions and criminal convictions Explanation: The model state law requires reporting of disciplinary actions, criminal convictions, and other material changes affecting licensing status.
- 73. B** - MLOs working for non-depository institutions Explanation: State licensing laws apply to MLOs working for non-depository institutions, while depository institution employees register federally.
- 74. B** - Vary by state and loan volume Explanation: MLO bond requirements vary by state and may be based on loan volume, with amounts typically ranging from \$20,000 to \$100,000.
- 75. B** - Violations of licensing requirements Explanation: The model state law allows license suspension for violations of licensing requirements, professional conduct standards, or regulatory compliance.

- 76. B** - MLO compliance with licensing requirements Explanation: State regulatory examinations focus on MLO compliance with licensing laws, regulations, and professional conduct standards.
- 77. B** - Federal laws, ethics, and lending standards Explanation: MLO education must cover federal mortgage laws, ethics, lending standards, and other topics required by the SAFE Act and state law.
- 78. B** - Maintain accurate records Explanation: State laws require MLOs to maintain accurate records of their mortgage origination activities and regulatory compliance.
- 79. B** - Fall below federal minimum standards Explanation: The SAFE Act preempts state laws that fall below federal minimum standards while allowing states to exceed those standards.
- 80. B** - Financial responsibility and character fitness Explanation: MLO license applications must demonstrate financial responsibility through net worth or bonding and character fitness through background checks.
- 81. B** - Administrative hearings and appeals processes Explanation: State enforcement proceedings include administrative hearings, appeals processes, and due process protections for license holders.
- 82. B** - Material changes in circumstances Explanation: MLOs must disclose material changes in circumstances including employment changes, criminal charges, and regulatory actions.
- 83. B** - Public access to MLO licensing status Explanation: State licensing databases provide public access to MLO licensing status, disciplinary actions, and other regulatory information through NMLS.
- 84. B** - Investigation and appropriate enforcement action Explanation: MLO complaints trigger investigation processes and appropriate enforcement actions based on findings and severity of violations.
- 85. B** - Professional conduct and competency Explanation: The model state law addresses MLO professional conduct standards, competency requirements, and regulatory oversight mechanisms.
- 86. B** - May facilitate MLO licensing across state lines Explanation: State reciprocity agreements may facilitate MLO licensing across state lines, though each state maintains its own requirements.
- 87. B** - May be appealed through established procedures Explanation: MLO license denials may be appealed through established administrative procedures providing due process protections.
- 88. B** - NMLS participation and regulatory oversight Explanation: The SAFE Act requires states to participate in NMLS and provide regulatory oversight of state-licensed MLOs.
- 89. B** - License sanctions and civil penalties Explanation: State law violations may result in license sanctions, civil money penalties, and other enforcement actions.
- 90. B** - Meet approval standards and requirements Explanation: MLO education providers must meet state approval standards and NMLS requirements for content quality and delivery methods.

- 91. B** - Licensing and supervising MLOs Explanation: State regulatory authority includes licensing MLOs, conducting examinations, investigating complaints, and taking enforcement actions.
- 92. B** - Comply with all applicable laws and regulations Explanation: The model state law requires MLOs to comply with all applicable federal and state laws and regulations governing mortgage lending.
- 93. B** - Supervisory or educational requirements Explanation: MLO license conditions may include enhanced supervision, additional education, or other requirements based on individual circumstances.
- 94. B** - Sharing regulatory information and coordinating enforcement Explanation: State coordination with federal regulators includes information sharing, coordinated enforcement actions, and regulatory cooperation.
- 95. B** - State flexibility within federal minimum standards Explanation: The SAFE Act allows state flexibility in implementation while requiring compliance with federal minimum standards.
- 96. B** - Are reported to NMLS and may be publicly available Explanation: MLO disciplinary actions are reported to NMLS and may be publicly available through the NMLS consumer access website.
- 97. B** - Minimum MLO professional standards Explanation: The model state law establishes minimum professional standards for MLO education, testing, background checks, and conduct.
- 98. B** - Consumer protection and market integrity Explanation: State MLO licensing supports consumer protection, market integrity, and public confidence in mortgage lending professionals.
- 99. B** - Continuing education and updated background checks Explanation: MLO license renewals require completion of continuing education and updated background check information.
- 100. B** - State licensing and federal registration Explanation: The SAFE Act's dual system includes state licensing for non-depository institution employees and federal registration for depository institution employees.

Practice Question 3 - General Mortgage Knowledge

- 1. B** - VA loans are guaranteed by the Department of Veterans Affairs for eligible veterans, active-duty service members, and certain surviving spouses. FHA loans are insured by the Federal Housing Administration, USDA loans are guaranteed by the U.S. Department of Agriculture, and conventional loans are not government-backed.
- 2. C** - Under the Qualified Mortgage (QM) rule, the maximum debt-to-income ratio is generally 43%. This is a key requirement for QM loans, though some exceptions exist for certain loan programs.
- 3. C** - FHA loans require a minimum down payment of 3.5% for borrowers with credit scores of 580 or higher. Borrowers with scores between 500-579 must put down 10%.

- 4. C** - USDA loans are specifically designed for rural and suburban homebuyers in eligible areas. These loans offer 100% financing and are backed by the U.S. Department of Agriculture.
- 5. C** - Loans that exceed conforming loan limits are called both non-conforming loans and jumbo loans. These terms are used interchangeably to describe loans that cannot be purchased by Fannie Mae or Freddie Mac.
- 6. A** - Fannie Mae (FNMA) and Freddie Mac (FHLMC) are the two government-sponsored enterprises that purchase conventional loans from lenders, providing liquidity to the mortgage market.
- 7. A** - The traditional housing expense ratio (front-end ratio) should not exceed 28% of gross monthly income. This includes principal, interest, taxes, and insurance (PITI).
- 8. B** - An ARM has an interest rate that adjusts periodically based on market conditions, unlike a fixed-rate mortgage where the rate remains constant throughout the loan term.
- 9. B** - A 5/1 ARM has a fixed interest rate for the first 5 years, then adjusts annually thereafter. The first number indicates the fixed period, the second indicates the adjustment frequency.
- 10. C** - Private Mortgage Insurance (PMI) is typically required on conventional loans when the down payment is less than 20% of the home's value, meaning the loan-to-value ratio exceeds 80%.
- 11. C** - Reverse mortgages (HECMs) are available to homeowners who are at least 62 years old. This allows them to convert part of their home equity into cash payments.
- 12. C** - FHA loans require both an upfront mortgage insurance premium (UFMIP) paid at closing and an annual mortgage insurance premium (MIP) paid monthly throughout the loan term.
- 13. B** - The VA funding fee varies based on the down payment amount and whether it's the borrower's first use of VA benefits or subsequent use, as well as military service category.
- 14. B** - Interest-only mortgages allow borrowers to pay only the interest portion during an initial period, typically 5-10 years, before principal payments begin.
- 15. C** - Balloon mortgages have relatively low monthly payments throughout the term with a large final payment (balloon payment) due at maturity.
- 16. C** - The Federal Housing Finance Agency sets the conforming loan limits annually for loans that can be purchased by Fannie Mae and Freddie Mac.
- 17. B** - A construction-to-permanent loan eliminates the need for two separate closings by automatically converting from construction financing to permanent financing when construction is complete.
- 18. B** - HomeReady is Fannie Mae's affordable lending program, while Home Possible is Freddie Mac's equivalent program, both designed for low-to-moderate income borrowers.

- 19. C** - For FHA loans, borrowers with credit scores between 500-579 must make a minimum down payment of 10%. Those with scores of 580 or higher can put down as little as 3.5%.
- 20. B** - Non-QM loans don't meet the Qualified Mortgage standards but are still legal to originate. They may have higher risk characteristics and different regulatory requirements.
- 21. A** - The three major credit reporting agencies (credit bureaus) are Experian, Equifax, and TransUnion. They collect and maintain credit information on consumers.
- 22. C** - FICO scores range from 300 to 850, with higher scores indicating better creditworthiness. Most lenders use FICO scores for mortgage lending decisions.
- 23. B** - Payment history accounts for 35% of a FICO score and is the most important factor. It shows whether payments have been made on time consistently.
- 24. C** - Desktop Underwriter (DU) is Fannie Mae's AUS, Loan Prospector (LP) is Freddie Mac's AUS, TOTAL Scorecard is FHA's AUS, and GUS is USDA's automated underwriting system.
- 25. B** - The debt-to-income ratio includes all monthly debt payments: housing expenses, credit cards, auto loans, student loans, and other recurring debt obligations.
- 26. D** - Compensating factors help offset higher risk characteristics and can include large down payments, significant reserves, stable employment, excellent credit history, or conservative loan terms.
- 27. C** - Lenders typically require a 2-year employment history to establish income stability, though gaps may be acceptable with proper documentation and explanation.
- 28. B** - Gift funds must come from acceptable sources (family members, employers, etc.) and require proper documentation including gift letters and proof of the donor's ability to give.
- 29. C** - Reserves refer to liquid assets (cash, savings, investments) that remain available to the borrower after closing, providing a financial cushion for mortgage payments.
- 30. B** - A co-borrower is fully responsible for the loan obligation and is typically on both the note and mortgage. They share equal responsibility with the primary borrower.
- 31. B** - Self-employed borrowers typically need to provide personal and business tax returns for the most recent 2 years, along with profit and loss statements and other business documentation.
- 32. B** - An appraisal determines the market value of the property to ensure the loan amount doesn't exceed the property's worth, protecting the lender's collateral interest.
- 33. B** - The loan-to-value (LTV) ratio is calculated by dividing the loan amount by the property's appraised value or purchase price, whichever is lower.

- 34. B** - Borrowers with recent bankruptcies must wait specific seasoning periods: typically 2 years for Chapter 13, 4 years for Chapter 7 for conventional loans, with shorter periods for government loans.
- 35. B** - Mortgage insurance protects the lender against loss if the borrower defaults on the loan. It does not protect the borrower or provide coverage for the property itself.
- 36. B** - Verification of Employment (VOE) confirms the borrower's current employment status, income amount, and likelihood of continued employment.
- 37. D** - Asset documentation can include bank statements, investment accounts, retirement accounts, and other liquid assets that demonstrate the borrower's financial stability.
- 38. B** - A cash-out refinance replaces the existing mortgage with a larger loan, allowing the borrower to receive cash from their home equity.
- 39. B** - The housing expense ratio (front-end ratio) is calculated by dividing the total housing payment (PITI) by the borrower's gross monthly income.
- 40. C** - Credit inquiries are classified as either soft inquiries (don't affect credit scores) or hard inquiries (may temporarily lower credit scores when applying for credit).
- 41. A** - The Uniform Residential Loan Application is Form 1003, which is the standard mortgage application form used throughout the industry.
- 42. D** - Appraisals are typically valid for 120 days from the effective date, though some loan programs may have different requirements or allow extensions.
- 43. B** - Title insurance protects against defects in title, including unknown liens, ownership disputes, forgery, and other title issues that could affect property ownership.
- 44. A** - A survey shows the exact boundaries of the property, location of improvements, easements, and potential encroachments.
- 45. B** - Under TRID rules, lenders must provide the Loan Estimate within 3 business days of receiving a complete loan application.
- 46. C** - The Closing Disclosure must be provided to the borrower at least 3 business days before the scheduled closing date under TRID requirements.
- 47. B** - RESPA (Real Estate Settlement Procedures Act) requires disclosure of settlement costs and prohibits certain practices like kickbacks for referrals of settlement services.
- 48. B** - Escrow accounts hold funds collected monthly from borrowers to pay property taxes, homeowners insurance, and sometimes mortgage insurance or HOA fees.

- 49. B** - The right of rescission applies to refinance transactions on the borrower's primary residence, giving them 3 business days to cancel the loan after closing.
- 50. B** - A power of attorney is a legal document that authorizes a specific person (attorney-in-fact) to sign documents and make decisions on behalf of another person.
- 51. B** - Flood insurance is required when a property is located in a Special Flood Hazard Area as designated by FEMA flood maps.
- 52. B** - A subordination agreement changes the priority of liens, typically allowing a new first mortgage to take priority over an existing lien.
- 53. D** - The application date determines which regulations apply, starts the rate lock period, and establishes timelines for disclosures and processing requirements.
- 54. B** - A commitment letter indicates the lender's intent to make the loan subject to meeting specified conditions. It's not a guarantee but shows strong preliminary approval.
- 55. D** - Mortgage fraud can include income falsification, property value inflation, identity theft, and other misrepresentations intended to influence lending decisions.
- 56. B** - A wet signature refers to an original handwritten signature in ink, as opposed to electronic or digital signatures.
- 57. D** - A complete loan file contains the application, supporting documentation, underwriting analysis, approval conditions, and evidence of condition clearance.
- 58. A** - A loan modification changes the original terms of the mortgage (rate, payment, term) to make it more affordable and help the borrower avoid foreclosure.
- 59. B** - Loan conditions are requirements that must be satisfied before the loan can be funded, ensuring all underwriting requirements are met.
- 60. A** - Documentation requirements are determined by the type of loan program and the specific guidelines of the investor who will purchase the loan.
- 61. B** - The TRID rule replaced the HUD-1 Settlement Statement with the Closing Disclosure, which provides detailed information about loan terms and closing costs.
- 62. D** - At closing, the borrower receives the keys to the property, signed loan documents and disclosures, and the deed transferring title to their name.
- 63. B** - The deed is the legal document that transfers ownership of the property from the seller to the buyer.

- 64. B** - Recording the mortgage in public records establishes the lender's lien position and protects their security interest in the property.
- 65. D** - Prorations at closing typically include property taxes, HOA fees, utilities, insurance premiums, interest, and rental income to fairly divide costs between buyer and seller.
- 66. C** - Loan funding occurs after all closing conditions are satisfied and documents are properly executed and recorded.
- 67. C** - A warranty deed provides the buyer with the greatest protection, as the seller guarantees clear title and will defend against any title defects.
- 68. B** - The promissory note is the borrower's written promise to repay the loan according to specified terms. The mortgage is the security instrument.
- 69. B** - An assignment of mortgage transfers the lender's interest in the mortgage to another party, typically when loans are sold to investors.
- 70. B** - The mortgage servicer handles day-to-day loan administration including collecting payments, managing escrow accounts, and handling customer service.
- 71. D** - Escrow analysis is performed annually to ensure adequate funds are collected, and also when property taxes or insurance costs change significantly.
- 72. B** - A payoff statement shows the current loan balance and the exact amount needed to pay off the loan as of a specific date, including interest and fees.
- 73. D** - A loan is considered closed when documents are signed, funds are disbursed, and the mortgage is recorded in public records.
- 74. B** - Post-closing quality control reviews help ensure loans meet investor guidelines and regulatory requirements, identifying any issues that need correction.
- 75. B** - If errors are found after closing, corrective actions such as document corrections, re-recording, or financial adjustments may be necessary.
- 76. B** - "The mortgage follows the note" is a legal principle meaning that ownership of the mortgage automatically transfers with ownership of the promissory note.
- 77. B** - A satisfaction of mortgage (or deed of reconveyance) is recorded to release the lender's lien when the loan is paid in full.
- 78. B** - Loans are typically delivered to the investor within 30 days of closing, along with all required documentation and certifications.

- 79. B** - For refinance transactions on primary residences, borrowers have 3 business days after closing to cancel the loan under the right of rescission.
- 80. B** - A cloud on title refers to any defect, lien, or other issue that affects clear ownership of the property and may need to be resolved before closing.
- 81. B** - Housing expense ratio = $\$1,800 \div \$6,000 = 0.30$ or 30%. This exceeds the preferred 28% ratio.
- 82. C** - Debt-to-income ratio = $\$2,400 \div \$6,000 = 0.40$ or 40%. This exceeds the typical 36% conventional loan limit.
- 83. B** - LTV ratio = $\$240,000 \div \$300,000 = 0.80$ or 80%.
- 84. A** - Loan amount = $\$300,000$ (purchase price) - $\$60,000$ (down payment) = $\$240,000$.
- 85. A** - New rate = Index (2.8%) + Margin (2.5%) = 5.3%.
- 86. A** - With a 2% annual cap and starting rate of 3%, the maximum rate after first adjustment is $3\% + 2\% = 5.0\%$.
- 87. C** - Insurance = $\$2,000$ (PITI) - $\$1,200$ (PI) - $\$400$ (taxes) = $\$400$.
- 88. C** - Maximum total debt = $\$8,000 \times 36\% = \$2,880$.
- 89. A** - Maximum housing payment = $\$8,000 \times 28\% = \$2,240$.
- 90. C** - Monthly interest = $\$200,000 \times 4\% \div 12 = \666.67 , rounded to $\$666$.
- 91. B** - Cost of points = $\$250,000 \times 2\% = \$5,000$ (each point equals 1% of loan amount).
- 92. B** - Each discount point typically reduces the interest rate by approximately 0.25% (1/4 of 1%).
- 93. B** - Reserves = $\$50,000 \div \$1,800 = 2.78$ months, rounded to 2.8 months.
- 94. C** - Monthly escrow = $\$3,600 \div 12 = \300 .
- 95. D** - Cash-out amount = $\$200,000$ (new loan) - $\$180,000$ (payoff) - closing costs. The net cash depends on closing costs.
- 96. B** - Maximum loan = $\$400,000 \times 75\% = \$300,000$.
- 97. A** - Buyer pays = $\$8,000$ (total closing costs) - $\$5,000$ (seller contribution) = $\$3,000$.
- 98. A** - In most construction-to-permanent loans, only the amount actually drawn during construction becomes the permanent loan balance.

99. A - Maximum monthly debt = $\$72,000 \div 12 \times 36\% = \$6,000 \times 36\% = \$2,160$.

100. D - The amount of principal paid down depends on the interest rate and amortization schedule. Higher rates mean more interest and less principal in early payments.

Practice Question 4 - Mortgage Loan Origination Activities

1. A - Under TRID, the Loan Estimate must be delivered within 3 business days of receiving a complete application, not calendar days.

2. D - A complete application requires borrower's name, income, SSN, property address, loan amount, and estimate of property value. Credit score is not required for application completeness.

3. B - If application is received Monday, the Loan Estimate must be delivered by Thursday (3 business days later).

4. D - The Loan Estimate provides loan terms, projected payments, and closing costs, but does not include the final approval decision, which comes later in the process.

5. C - Application fees can only be charged if specifically disclosed upfront to the borrower before collection.

6. B - Under TRID, only a bona fide and reasonable credit report fee can be collected before the borrower receives the Loan Estimate.

7. C - The 3-day clock starts when the application becomes complete. If completed on Tuesday, the Loan Estimate is due by Friday.

8. B - TRID applies to closed-end consumer credit transactions secured by real property, with certain exemptions.

9. D - Both missing property address and an unsigned application would make the application incomplete under TRID requirements.

10. C - Additional information beyond the six required pieces does not affect application completeness or reset timing requirements.

11. B - Interest rate locks can be offered at any time during the application process at the lender's discretion.

12. D - Borrowers have the right to receive appraisal copies promptly upon completion and at least 3 days before closing.

- 13. C** - Both the Loan Estimate and Home Loan Toolkit must be provided within 3 business days of application.
- 14. A** - When a borrower applies for multiple programs, separate Loan Estimates must be provided for each program requested.
- 15. C** - Application fees must be bona fide and reasonable, covering only actual costs incurred by the lender.
- 16. B** - Rate inquiries constitute pre-qualification only, not a formal application under TRID.
- 17. B** - The Loan Estimate is valid for 10 business days from when it's provided to the borrower.
- 18. D** - Credit changes, rate changes, or time expiration can all cause a Loan Estimate to expire and require updates.
- 19. B** - When a Loan Estimate expires, lenders can provide a new one with current terms and conditions.
- 20. C** - The Loan Estimate's primary purpose is to help borrowers understand loan terms and compare offers from different lenders.
- 21. B** - Employment verification should be written (VOE) to provide proper documentation for the loan file.
- 22. B** - Bank statements typically cover the most recent 60 days to verify assets and deposits.
- 23. B** - Self-employed borrowers typically need tax returns for the last 2 years to verify income stability.
- 24. B** - Large deposits must be sourced and documented to ensure they're from acceptable sources and not borrowed funds.
- 25. A** - Debt-to-income ratio includes total monthly housing payment plus all recurring monthly debt obligations.
- 26. C** - Utilities are not considered recurring monthly debt for DTI calculations as they're not credit obligations.
- 27. B** - Gift funds must be documented with a gift letter stating it's a true gift with no repayment expected.
- 28. D** - Assets can be verified through either account statements (typically 2 months) or verification of deposit forms.
- 29. B** - Employment gaps must be explained and documented, regardless of length, to verify stability.
- 30. A** - Recent credit inquiries must be explained to understand if the borrower is taking on additional debt.

- 31. C** - Credit scores affect both loan approval decisions and loan pricing (interest rates and terms).
- 32. D** - Rental history verification may be required in various circumstances to establish housing payment history.
- 33. B** - Income averaging is used when income fluctuates to determine a stable monthly income figure.
- 34. D** - Overtime income can be considered if it meets all three criteria: 2-year history, likelihood to continue, and proper documentation.
- 35. C** - Commission income requires both tax returns for stability and current year-to-date profit/loss statements.
- 36. B** - Credit reports are obtained to assess the borrower's creditworthiness and payment history patterns.
- 37. D** - Credit disputes are handled case-by-case depending on the nature and validity of the dispute.
- 38. A** - Seasoned funds refer to money that has been in accounts for a specified period, typically 60 days.
- 39. B** - Housing history for the past 2 years is typically verified to establish payment patterns.
- 40. A** - Bonus income requires a 2-year history and likelihood of continuance to be included in qualifying income.
- 41. B** - The underwriter's primary role is to assess the risk of the loan and make approval decisions.
- 42. B** - AUS systems provide preliminary underwriting decisions but don't guarantee final approval.
- 43. C** - A "refer" decision means the file needs manual underwriting review by a human underwriter.
- 44. B** - Compensating factors are positive aspects that can help offset weaknesses in a loan application.
- 45. A** - LTV is calculated by dividing the loan amount by the appraised value or sales price, whichever is lower.
- 46. B** - With only 5% down (95% LTV), mortgage insurance would be required regardless of credit score.
- 47. C** - The general DTI limit for qualified mortgages is 43%, though some exceptions exist.
- 48. A** - Mortgage insurance is typically required when the loan-to-value ratio exceeds 80%.
- 49. B** - Appraisals determine the property's market value for lending purposes to establish appropriate LTV.
- 50. B** - Low appraisals require borrowers to bring additional funds to maintain the same LTV or renegotiate price.

- 51. B** - Reserves refer to liquid assets the borrower has remaining after closing for financial stability.
- 52. B** - Conditional approval means the loan is approved subject to satisfying specific conditions.
- 53. C** - Final approval can only be given when all underwriting conditions have been satisfied.
- 54. C** - Underwriters review financial and property documentation but not marketing materials.
- 55. C** - Cash-to-close includes both the down payment and closing costs the borrower must bring.
- 56. B** - All conditions from conditional approval must be cleared and satisfied before closing can occur.
- 57. A** - Title insurance protects the lender's interest in the property against title defects.
- 58. B** - Clear-to-close means all loan conditions have been satisfied and the loan can proceed to closing.
- 59. B** - Lenders must perform post-closing quality control reviews on a sample of closed loans.
- 60. B** - Underwriting decisions must be based on objective financial criteria, not discriminatory factors.
- 61. C** - ECOA prohibits discrimination based on race, color, religion, national origin, sex, marital status, age, and other protected classes.
- 62. A** - Adverse action notices must be provided within 30 days of taking adverse action on a credit application.
- 63. B** - FCRA requires borrower consent before obtaining credit reports for lending purposes.
- 64. B** - APR must include the interest rate plus certain other finance charges to show the true cost of credit.
- 65. C** - Right of rescission applies to refinances of primary residences, not purchase money mortgages.
- 66. A** - The rescission period is 3 business days from closing or receipt of required disclosures.
- 67. B** - RESPA prohibits kickbacks, referral fees, and unearned fees in real estate settlement services.
- 68. B** - Affiliated business arrangements require specific disclosures to borrowers about the relationship.
- 69. A** - The SAFE Act requires mortgage loan originators to be either state-licensed or federally registered.
- 70. B** - Continuing education requirements must be completed annually to maintain MLO licensing.
- 71. B** - The ability-to-repay rule requires lenders to make a reasonable determination of the borrower's ability to repay.

- 72. B** - Qualified mortgages provide certain legal protections to lenders, including a presumption of compliance with ATR.
- 73. C** - Points and fees for QMs generally cannot exceed 3% of the loan amount, with some exceptions for smaller loans.
- 74. C** - The general QM debt-to-income limit is 43%, though some government-sponsored enterprise loans may exceed this.
- 75. C** - Prepayment penalties on QMs are restricted and can only be charged for the first 3 years in limited circumstances.
- 76. B** - HOEPA applies specifically to high-cost mortgages that meet certain APR or points and fees thresholds.
- 77. C** - A loan is high-cost under HOEPA if either the APR or points and fees exceed the specified thresholds.
- 78. B** - Privacy notices under Gramm-Leach-Bliley must be provided annually to customers.
- 79. D** - The Flood Disaster Protection Act requires both flood zone determinations and flood insurance when properties are in flood zones.
- 80. D** - AML requirements include customer identification programs, suspicious activity reporting, and record keeping.
- 81. B** - The Closing Disclosure must be provided at least 3 business days before closing.
- 82. B** - An APR increase of more than 1/8% from the Loan Estimate triggers a new 3-day waiting period.
- 83. B** - The closing agent facilitates the closing process and ensures proper recording of documents.
- 84. C** - At closing, borrowers sign multiple documents including the note, deed of trust, and various disclosures.
- 85. B** - The promissory note is the borrower's written promise to repay the loan according to specified terms.
- 86. B** - The deed of trust or mortgage secures the promissory note by using the property as collateral.
- 87. B** - Loan funding occurs when the lender actually releases the loan proceeds, typically after document recording.
- 88. B** - The right to cancel a refinance extends 3 business days after closing for owner-occupied properties.

- 89. D** - Post-closing compliance includes delivering notices, quality control reviews, and proper document retention.
- 90. B** - Escrow accounts are used to collect and pay property taxes, homeowners insurance, and sometimes mortgage insurance.
- 91. C** - RESPA requires annual escrow account analysis to ensure proper amounts are being collected.
- 92. C** - The initial escrow account disclosure must be provided at closing when the escrow account is established.
- 93. B** - Escrow shortages can typically be paid immediately or spread over 12 months at the borrower's option.
- 94. D** - Loan servicing includes collecting payments, managing escrow accounts, and handling all borrower inquiries.
- 95. B** - When loans are sold, borrowers must be notified but do not need to approve the sale.
- 96. D** - Loan modifications change original terms, require borrower agreement, and must comply with investor guidelines.
- 97. B** - Quality control reviews ensure compliance with regulations, guidelines, and investor requirements.
- 98. A** - Document retention requirements vary depending on loan type, regulation, and investor requirements.
- 99. D** - Complete loan files must contain all application documents, disclosures, and underwriting documentation.
- 100. D** - Post-closing quality control may result in loan buybacks, additional documentation requests, or compliance violations.

Practice Question 5 - Ethics

- 1. B** - MLOs have a fiduciary duty to act in the borrower's best interest, not just maximize profits or sales volume.
- 2. B** - Falsifying income information is mortgage fraud. MLOs must refuse and explain the legal and ethical problems.
- 3. B** - Professional integrity requires immediate correction of errors and notification to all relevant parties.

- 4. B** - MLOs should decline personal gifts from borrowers to avoid conflicts of interest and maintain professional boundaries.
- 5. B** - Personal relationships with referral sources must be disclosed to borrowers to ensure transparency.
- 6. B** - Confidential borrower information should only be used for legitimate business purposes related to the loan.
- 7. B** - Professional competence requires referring borrowers to qualified experts when MLOs lack specific knowledge.
- 8. B** - MLOs should provide multiple options without showing preference based on personal financial arrangements.
- 9. B** - All advertising must be truthful and not misleading, regardless of marketing objectives.
- 10. B** - Fiduciary duty requires MLOs to act with loyalty and care toward borrowers' interests.
- 11. B** - MLOs should counsel borrowers about risks even when borrowers want to proceed with unsuitable loans.
- 12. B** - Professional conduct requires prompt and professional handling of all borrower complaints.
- 13. C** - Confidentiality obligations continue indefinitely with limited exceptions for legal requirements.
- 14. B** - Suspected elder abuse should be reported to appropriate authorities for investigation and protection.
- 15. B** - Professional integrity requires acknowledging mistakes and working to correct them promptly.
- 16. B** - All required steps exist for important reasons and cannot be skipped for convenience.
- 17. B** - Continuing education should focus on maintaining and improving professional competence across all areas.
- 18. B** - MLOs must ensure effective communication through interpretation services or translated materials.
- 19. B** - Personal information shared by borrowers must be kept confidential while showing appropriate empathy.
- 20. B** - Former employees must respect confidentiality agreements and non-compete clauses when changing employers.
- 21. B** - ECOA prohibits discrimination based on race, color, religion, national origin, sex, marital status, age, and other protected characteristics.

- 22. B** - Patterns of disparate treatment require immediate review of decision-making processes for potential bias.
- 23. B** - Communication barriers require extra effort to ensure effective interaction, not avoidance or discrimination.
- 24. B** - Lending decisions must be based solely on objective financial criteria, not subjective personal judgments.
- 25. B** - Public assistance income must be evaluated like any other income source without discrimination.
- 26. B** - Fair lending requires consistent application of underwriting standards to all applicants regardless of protected characteristics.
- 27. B** - MLOs should refer borrowers to objective sources of information rather than sharing personal opinions about neighborhoods.
- 28. B** - Disability accommodation laws require reasonable accommodations while maintaining normal underwriting standards.
- 29. B** - Personal religious beliefs should not influence professional lending decisions or client treatment.
- 30. B** - Redlining refers to discriminatory lending practices that exclude entire geographic areas from lending.
- 31. B** - Immigration status is only relevant as it affects legal capacity to enter into contracts.
- 32. B** - Alimony and child support should be considered if the income is reliable and likely to continue.
- 33. B** - Age discrimination is prohibited except when age affects legal capacity to enter contracts.
- 34. B** - Zip codes should only be used for property location identification, not for discriminatory decision-making.
- 35. B** - Mental health conditions should not affect lending decisions unless they impact ability to repay.
- 36. B** - Disparate impact occurs when neutral policies disproportionately affect protected groups.
- 37. B** - Family planning intentions are protected information that cannot be considered in lending decisions.
- 38. B** - Unmarried couples should be evaluated based on their combined qualifications without discrimination.
- 39. A** - Fair lending compliance testing often involves paired testers with similar profiles to identify discrimination.

40. **B** - Political affiliations are irrelevant to lending decisions and should not influence the process.
41. **B** - Financial interests in referral companies must be disclosed to borrowers for transparency.
42. **B** - RESPA specifically prohibits kickbacks and unearned referral fees in real estate transactions.
43. **B** - Referral fees from real estate agents violate RESPA and must be declined.
44. **B** - Spousal relationships with service providers must be disclosed when making referrals.
45. **B** - YSPs created conflicts because they incentivized MLOs to charge borrowers higher rates for personal gain.
46. **B** - RESPA prohibits gifts from settlement service providers except for nominal promotional items.
47. **B** - Family relationships in transactions are allowed but require proper disclosure and documentation.
48. **A** - All business relationships that could influence referrals must be disclosed to borrowers.
49. **B** - Affiliate business arrangements require specific written disclosures under RESPA.
50. **B** - Professional referrals should provide multiple options without compensation from the referred parties.
51. **A** - Financial interests in appraisal companies create prohibited conflicts of interest under appraisal independence rules.
52. **D** - MSAs must provide actual value but can be used to disguise referral fees if not structured properly.
53. **B** - Attempted bribery must be refused and reported to appropriate authorities.
54. **B** - Even with preferred vendors, borrowers must be informed they have choices in service providers.
55. **B** - Free office space may violate RESPA if it's provided in exchange for referrals.
56. **B** - Avoiding conflicts of interest means prioritizing borrower interests over personal financial gain.
57. **B** - Captive reinsurance arrangements must be disclosed if they create conflicts of interest.
58. **B** - Family relationships with competitors should not affect how borrowers are treated.
59. **A** - All sources of compensation for a loan transaction must be disclosed to borrowers.
60. **B** - Financial interests in loan outcomes create potential conflicts between MLO and borrower interests.

- 61. B** - Mortgage fraud involves intentional misrepresentation or omission for financial gain.
- 62. B** - Suspected fraud must be reported to appropriate authorities regardless of potential consequences.
- 63. B** - Straw buyer fraud involves someone applying for a loan they don't intend to repay.
- 64. B** - Suspicious appraisals must be reported to maintain the integrity of the lending process.
- 65. B** - Air loan fraud involves loans on properties that don't actually exist.
- 66. D** - Identity theft can be detected through multiple verification methods including SSN, employment, and credit checks.
- 67. A** - Occupancy fraud occurs when borrowers misrepresent their intended use of the property.
- 68. B** - Altered documents require investigation to determine authenticity before proceeding.
- 69. B** - Chunking involves selling overpriced properties to unqualified buyers through fraudulent schemes.
- 70. B** - Last-minute changes to applications can indicate attempts to conceal information or commit fraud.
- 71. B** - Silent second mortgages become fraudulent when hidden from the primary lender.
- 72. A** - Nominee loans are fraudulent when the true borrower's identity is concealed from the lender.
- 73. B** - MLOs play a crucial role in fraud prevention through verification and reporting suspicious activities.
- 74. D** - Income fraud detection requires multiple verification methods including employment, tax returns, and document consistency.
- 75. B** - Foreclosure rescue scams use deceptive practices to take advantage of distressed homeowners.
- 76. B** - Changes in intended occupancy require processing the loan under the correct loan program.
- 77. B** - SARs are required for transactions that appear suspicious or may involve criminal activity.
- 78. B** - Property flipping becomes fraudulent when it involves artificial price inflation or misrepresentation.
- 79. B** - The duty to report suspected fraud is mandatory regardless of potential negative consequences.
- 80. B** - Effective fraud prevention requires thorough verification and documentation of all loan information.

- 81. B** - Professional reputation is built on consistent ethical behavior and demonstrated competence over time.
- 82. B** - Professional communication requires prompt notification when commitments cannot be met.
- 83. B** - Comprehensive professional development includes ethics, regulations, and industry best practices.
- 84. D** - Maintaining current knowledge requires multiple ongoing activities including reading, education, and regulatory updates.
- 85. B** - Professional presentations must provide accurate and balanced information without exaggeration.
- 86. B** - Proper record-keeping is essential for compliance and professional accountability.
- 87. B** - Professional complaint handling requires active listening and appropriate response to legitimate concerns.
- 88. B** - Professional communication should always be clear, timely, and maintain professional standards.
- 89. B** - Professional networking should build relationships based on mutual respect and shared ethical standards.
- 90. B** - Professional problem-solving considers all stakeholders' legitimate interests, not just immediate profits.
- 91. B** - When specific rules don't apply, MLOs should use ethical principles and seek appropriate guidance.
- 92. D** - Professional boundaries include maintaining appropriate relationships and separating business from personal affairs.
- 93. B** - Industry best practices emphasize comprehensive compliance procedures over shortcuts or efficiency alone.
- 94. B** - Professional responsibility includes promoting ethical behavior and ensuring proper training for team members.
- 95. B** - Industry-wide problems should be reported to appropriate authorities when discovered.
- 96. B** - Professional excellence requires continuous improvement and learning beyond minimum requirements.
- 97. B** - Mentoring junior professionals is an important responsibility for experienced MLOs.
- 98. B** - Industry changes should be adapted to while maintaining consistent ethical standards.
- 99. B** - Professional integrity means consistently doing the right thing even when it's difficult or costly.

100. C - True professional success combines positive impact on borrowers with consistent ethical behavior and standards.