

MLO PRACTICE TESTS

Practice tests represent the most critical component of effective NMLS exam preparation, providing the only reliable method for assessing your readiness while building the test-taking skills necessary for success under actual exam conditions. Unlike content review that builds knowledge, practice testing develops the analytical thinking, time management, and question interpretation skills that determine whether you can apply your knowledge correctly within the constraints of a timed, high-stakes examination. The candidates who consistently score 85-90% on quality practice tests typically pass their NMLS exam on the first attempt, while those who struggle to reach 75% on practice tests often face disappointment despite extensive content study.

The reality is that knowing mortgage lending concepts and successfully answering NMLS exam questions represent distinctly different skills that require separate development through systematic practice testing and performance analysis. Many well-prepared candidates possess adequate knowledge but fail their exams because they cannot navigate complex question formats, manage time effectively, or maintain focus under testing pressure. Quality practice tests simulate these challenges while providing safe environments for skill development and confidence building that translate directly to exam success. The investment in comprehensive practice testing often makes the difference between passing on the first attempt and enduring multiple testing cycles that delay career advancement while increasing preparation costs and stress levels.

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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. Under RESPA, which of the following is considered a federally related mortgage loan?
 - A) A loan made by a credit union whose deposits are not federally insured
 - B) A loan made by a bank whose deposits are insured by the FDIC
 - C) A loan made by a private individual to purchase investment property
 - D) A loan secured by property with more than four dwelling units

2. The Real Estate Settlement Procedures Act prohibits kickbacks between settlement service providers. Which of the following would violate this prohibition?
 - A) A title company paying a mortgage broker \$500 for each loan referral
 - B) A mortgage company providing educational seminars to real estate agents
 - C) A lender offering competitive interest rates to attract borrowers
 - D) An appraiser charging standard fees for property valuations

3. Under RESPA Section 8, what constitutes an "unearned fee"?
 - A) A fee charged for services actually performed
 - B) A fee charged for services not performed or duplicated services
 - C) A fee that is disclosed to the borrower in advance
 - D) A fee that is paid by the lender rather than the borrower

4. When must the Loan Estimate be delivered to the borrower under TRID?
 - A) Within 1 business day of application
 - B) Within 3 business days of application
 - C) Within 5 business days of application

D) Within 7 business days of application

5. RESPA's servicing transfer requirements mandate that borrowers receive notice of a loan servicing transfer how many days before the effective date?

A) 15 days

B) 30 days

C) 45 days

D) 60 days

6. Under the Equal Credit Opportunity Act, which of the following is a prohibited basis for credit discrimination?

A) Credit history

B) Income level

C) Marital status

D) Employment history

7. The Truth in Lending Act requires disclosure of which of the following?

A) Property taxes only

B) Annual Percentage Rate (APR)

C) Homeowner's insurance only

D) Property condition

8. Under ECOA, when must an adverse action notice be provided to a rejected applicant?

A) Within 15 days

B) Within 30 days

C) Within 45 days

D) Within 60 days

9. Which type of loan is exempt from RESPA coverage?

- A) A loan to purchase a single-family home as a primary residence
- B) A loan secured by a 25-acre farm used for agricultural purposes
- C) A loan to refinance an existing mortgage on a condominium
- D) A home equity line of credit secured by a primary residence

10. Under TILA, the right of rescission applies to which type of transaction?

- A) Purchase of a primary residence
- B) Refinance of a primary residence
- C) Purchase of investment property
- D) Commercial real estate loans

11. RESPA requires that escrow account analyses be performed at what frequency?

- A) Monthly
- B) Quarterly
- C) Annually
- D) Every two years

12. The Fair Housing Act prohibits discrimination based on all of the following EXCEPT:

- A) Race
- B) Religion
- C) Income level
- D) Familial status

13. Under TILA, what is the maximum finance charge tolerance for APR accuracy?

- A) 0.125%
- B) 0.25%
- C) 0.5%
- D) 1.0%

14. When a borrower submits a qualified written request regarding loan servicing, the servicer must respond within how many business days?

- A) 15 business days
- B) 30 business days
- C) 45 business days
- D) 60 business days

15. Under ECOA, which of the following inquiries is generally prohibited?

- A) Asking about current employment
- B) Asking about monthly income
- C) Asking about birth control practices
- D) Asking about existing debts

16. The Home Ownership and Equity Protection Act (HOEPA) provides enhanced protections for which type of loans?

- A) All mortgage loans
- B) High-cost mortgage loans
- C) Government-insured loans only
- D) Jumbo loans only

17. Under RESPA, what is the maximum amount a lender can require in an escrow account at closing?

- A) One month's escrow payment
- B) Two months' escrow payments
- C) Three months' escrow payments
- D) Six months' escrow payments

18. TRID requires the Closing Disclosure to be delivered how many business days before consummation?

- A) 1 business day
- B) 3 business days
- C) 5 business days
- D) 7 business days

19. Under ECOA, what information must be provided in an adverse action notice?

- A) Specific reasons for denial only
- B) Credit score only
- C) Either specific reasons or notice of right to request reasons
- D) Complete credit report

20. Which of the following activities would be prohibited under RESPA Section 8?

- A) A real estate agent recommending a qualified lender
- B) A lender paying a real estate agent for legitimate marketing services
- C) A title company paying referral fees to mortgage brokers
- D) A borrower choosing their preferred settlement service provider

21. The Truth in Lending Act's definition of "finance charge" includes which of the following?

- A) Property taxes
- B) Title insurance
- C) Discount points
- D) Homeowner's insurance

22. Under HOEPA, loans are subject to enhanced protections when the APR exceeds the Average Prime Offer Rate by what amount for first-lien mortgages?

- A) 4.5 percentage points
- B) 6.5 percentage points
- C) 8.5 percentage points
- D) 10 percentage points

23. RESPA's affiliated business arrangement disclosure must be provided when?

- A) At the time of referral
- B) Within 3 business days of referral
- C) At closing only
- D) Within 30 days of referral

24. Under ECOA, which of the following actions is permissible?

- A) Discounting a wife's income because she might have children
- B) Requiring a spouse's signature when not legally necessary
- C) Asking about an applicant's age to determine legal capacity
- D) Refusing to consider alimony as income

25. The Equal Credit Opportunity Act applies to which types of credit transactions?

- A) Mortgage loans only
- B) Consumer credit only
- C) All credit transactions
- D) Federally related loans only

26. Under TILA, when does the right of rescission period begin?

- A) When the loan is funded
- B) When documents are signed
- C) When TILA disclosures are delivered
- D) Whichever occurs last: signing, funding, or disclosure delivery

27. RESPA prohibits a lender from requiring a borrower to use which service provider?

- A) A specific appraiser chosen by the lender
- B) A specific title insurance company chosen by the borrower
- C) A specific title insurance company chosen by the lender

D) A specific attorney chosen by the lender

28. Under ECOA, credit scoring systems must be what?

A) Approved by the CFPB

B) Empirically derived and demonstrably statistical sound

C) Based solely on payment history

D) Updated annually

29. The Truth in Lending Act requires which disclosure for adjustable-rate mortgages?

A) Payment change examples only

B) Index information only

C) Both payment examples and index information

D) Maximum possible payment only

30. Under HOEPA, which of the following features is prohibited for high-cost mortgages?

A) Adjustable interest rates

B) Prepayment penalties exceeding 2% after the first year

C) Down payments less than 20%

D) Terms longer than 15 years

31. RESPA's good faith estimate requirements have been replaced by which TRID disclosure?

A) Closing Disclosure

B) Loan Estimate

C) Settlement Statement

D) Truth in Lending Disclosure

32. Under ECOA, an applicant has how long to request specific reasons for adverse action?

A) 30 days

- B) 60 days
- C) 90 days
- D) 120 days

33. The Fair Housing Act is enforced by which federal agency?

- A) CFPB only
- B) HUD only
- C) Both CFPB and HUD
- D) FTC only

34. Under TILA, what constitutes a "complete application" for disclosure timing purposes?

- A) Completed loan application form only
- B) Six pieces of information including name, income, and loan amount
- C) All required documentation
- D) Signed intent to proceed

35. RESPA requires disclosure of which information about settlement service providers?

- A) Their licensing status only
- B) Their fee structure only
- C) Any business relationships between providers
- D) Their years of experience

36. Under ECOA, which of the following statements about joint applicants is correct?

- A) Both applicants must sign all documents
- B) Income of both applicants must always be considered
- C) Each applicant may apply separately if they choose
- D) Credit reports must be pulled for both applicants

37. The Home Mortgage Disclosure Act requires lenders to collect data on which characteristics?

- A) Race, ethnicity, and sex
- B) Income only
- C) Credit score only
- D) Employment history

38. Under TILA, the Annual Percentage Rate must include which costs?

- A) All closing costs
- B) Finance charges only
- C) Third-party fees only
- D) Prepaid interest only

39. HOEPA's points and fees test is triggered when total points and fees exceed what percentage of the loan amount?

- A) 3%
- B) 5%
- C) 8%
- D) 10%

40. Under RESPA, marketing service agreements are permissible when they:

- A) Generate referrals for the paying party
- B) Provide services of value proportional to compensation
- C) Are required for loan approval
- D) Benefit the mortgage company exclusively

41. The Equal Credit Opportunity Act's prohibition against discrimination applies to which phase of lending?

- A) Application only
- B) Underwriting only

C) All phases of the credit transaction

D) Marketing only

42. Under TILA, variable rate disclosures must include information about which of the following?

- A) Historical index values for the past year only
- B) The current index value and margin
- C) Projected future index values
- D) Competitor rate comparisons

43. RESPA's prohibition against kickbacks applies to which types of payments?

- A) Legitimate compensation for services only
- B) Anything of value for referrals
- C) Cash payments only
- D) Payments above \$1,000 only

44. Under ECOA, what is the maximum age that can be considered in credit decisions?

- A) 55 years old
- B) 62 years old
- C) 65 years old
- D) No maximum age limit

45. The Truth in Lending Act's right of rescission applies for how many business days?

- A) 1 business day
- B) 3 business days
- C) 5 business days
- D) 7 business days

46. Under HOEPA, creditors are prohibited from making high-cost mortgages based solely on which factor?

- A) Borrower's income
- B) Borrower's credit score

- C) Property's collateral value
- D) Borrower's employment history

47. RESPA requires that loan servicers respond to borrower inquiries within what timeframe?

- A) 5 business days to acknowledge, 30 business days to resolve
- B) 10 business days to acknowledge, 60 business days to resolve
- C) 15 business days to acknowledge, 45 business days to resolve
- D) 20 business days to acknowledge, 90 business days to resolve

48. Under ECOA, creditors may ask about an applicant's marital status when:

- A) The applicant is applying for an unsecured loan
- B) The applicant lives in a community property state
- C) The applicant is under 25 years old
- D) Never, marital status questions are always prohibited

49. The Fair Housing Act's familial status protection covers which groups?

- A) Married couples only
- B) Families with children under 18 and pregnant women
- C) Single parents only
- D) Families with disabled children only

50. Under TILA, when must material changes to loan terms trigger a new waiting period?

- A) Any change to interest rate
- B) APR increases of 0.125% or more
- C) Changes to loan product or addition of prepayment penalty
- D) Any change to closing costs

51. RESPA's escrow account requirements allow for what maximum cushion amount?
- A) One month's payments
 - B) Two months' payments
 - C) Three months' payments
 - D) One-sixth of annual escrow payments
52. Under ECOA, which type of credit history information may NOT be considered?
- A) Payment history on previous mortgages
 - B) Bankruptcy discharged more than 10 years ago
 - C) Current credit utilization ratios
 - D) Length of credit history
53. The Home Ownership and Equity Protection Act covers which types of mortgage loans?
- A) All mortgage loans
 - B) Closed-end mortgage loans only
 - C) Open-end credit plans only
 - D) Both closed-end mortgages and open-end credit plans secured by dwellings
54. Under TILA, what information must be prominently disclosed for credit card advertisements?
- A) Interest rate only
 - B) Annual fee only
 - C) APR and significant terms
 - D) Minimum payment amount only
55. RESPA's Section 9 requires disclosure of which information?
- A) Loan servicing transfer history
 - B) Settlement service provider relationships

- C) Borrower's right to choose service providers
- D) Lender's business relationships with real estate agents

56. Under ECOA, what constitutes "adverse action"?

- A) Loan denial only
- B) Counteroffer with different terms
- C) Denial, counteroffer, or termination of existing credit
- D) Request for additional documentation

57. The Fair Housing Act prohibits which advertising practice?

- A) Advertising in multiple languages
- B) Using models of different races in ads
- C) Indicating a preference for certain types of applicants
- D) Advertising competitive interest rates

58. Under TILA, periodic statements for closed-end mortgages must be provided how frequently?

- A) Monthly
- B) Quarterly
- C) Annually
- D) Only upon borrower request

59. HOEPA requires enhanced disclosures to be provided how many business days before closing?

- A) 1 business day
- B) 3 business days
- C) 5 business days
- D) 7 business days

60. Under RESPA, which fee arrangement between a mortgage broker and lender is prohibited?

- A) Broker compensation based on loan amount
- B) Broker compensation based on loan interest rate
- C) Yield spread premiums disclosed to borrowers
- D) Fixed broker fees regardless of loan terms

61. The Equal Credit Opportunity Act requires creditors to maintain records for how long?

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

62. Under TILA, what triggers the requirement for additional ARM disclosures?

- A) Any adjustable rate feature
- B) Rate adjustments more frequently than annually
- C) Initial rate adjustments within five years
- D) Rate adjustment caps exceeding 2%

63. RESPA requires that borrowers receive a Special Information Booklet when?

- A) At application
- B) Within 3 business days of application
- C) At closing
- D) After closing

64. Under ECOA, which inquiry about an applicant's spouse is permissible?

- A) Spouse's employment history when spouse income isn't being used
- B) Spouse's income when spouse will be contractually liable

- C) Spouse's credit history when not applying jointly
- D) Spouse's consent to the loan application

65. The Home Mortgage Disclosure Act data must be reported by what date each year?

- A) March 1
- B) March 31
- C) April 1
- D) April 30

66. Under TILA, what is considered a "dwelling" for right of rescission purposes?

- A) Primary residences only
- B) Any residential structure
- C) Single-family homes only
- D) Owner-occupied properties only

67. HOEPA's ability-to-repay requirements prohibit lending based on which assumption?

- A) Stable employment
- B) Collateral value of the property
- C) Current income levels
- D) Borrower's credit history

68. Under RESPA, what constitutes a "business day" for disclosure timing?

- A) Monday through Friday only
- B) Any day banks are open
- C) Monday through Saturday
- D) All days except Sundays and federal holidays

69. The Equal Credit Opportunity Act's monitoring requirements apply to which types of lenders?

- A) All lenders
- B) Banks only
- C) Federally regulated lenders only
- D) Lenders meeting specific asset and volume thresholds

70. Under TILA, when is a loan considered "consummated"?

- A) When documents are signed
- B) When funds are disbursed
- C) When borrower becomes contractually obligated
- D) When loan is recorded

71. RESPA's tolerance requirements limit increases in which types of costs?

- A) All closing costs equally
- B) Lender fees only
- C) Different tolerance levels for different cost categories
- D) Third-party fees only

72. Under ECOA, what information may be collected for monitoring purposes?

- A) Race, ethnicity, and sex on a voluntary basis
- B) All prohibited basis characteristics
- C) Income source details
- D) Family planning intentions

73. The Fair Housing Act's disability protections require which accommodation?

- A) Reasonable modifications at tenant expense
- B) All requested modifications regardless of reasonableness

- C) Structural changes to common areas only
- D) Reasonable accommodations in rules and policies

74. Under TILA, what constitutes a "material change" requiring new disclosures?

- A) Any change to loan terms
- B) Changes affecting APR by more than 0.125%
- C) Changes to closing date
- D) Changes to loan amount only

75. HOEPA's counseling requirements apply to which borrowers?

- A) All mortgage borrowers
- B) First-time homebuyers only
- C) High-cost mortgage borrowers
- D) Subprime borrowers only

76. Under RESPA, when may a lender require borrower use of attorney services?

- A) Never
- B) When required by state law
- C) When loan amount exceeds \$500,000
- D) When borrower requests legal representation

77. The Equal Credit Opportunity Act prohibits creditors from considering which factor?

- A) Debt-to-income ratio
- B) Employment stability
- C) Immigration status when legally present
- D) Receipt of public assistance income

78. Under TILA, variable rate loans require disclosure of which historical information?

- A) 15-year index history
- B) 5-year index history
- C) 3-year index history
- D) 1-year index history

79. RESPA's Section 8 violations can result in which penalties?

- A) Criminal penalties only
- B) Civil penalties up to three times the charge paid
- C) License suspension only
- D) Warning letters only

80. Under ECOA, what notice must be provided to applicants about data collection?

- A) Notice is not required
- B) Oral notice is sufficient
- C) Written notice explaining monitoring purpose
- D) Detailed explanation of how data will be used

81. The Home Ownership and Equity Protection Act defines high-cost mortgages based on which tests?

- A) APR test only
- B) Points and fees test only
- C) Both APR and points and fees tests
- D) Loan-to-value ratio test

82. Under TILA, when may creditors provide estimates rather than exact figures?

- A) Never, all figures must be exact
- B) When exact figures are unknown

- C) For third-party fees only
- D) During preliminary discussions only

83. RESPA requires that loan servicers maintain which types of records?

- A) Payment records only
- B) All servicing-related documents and communications
- C) Borrower contact information only
- D) Escrow account records only

84. Under ECOA, which statement about credit scoring is correct?

- A) Credit scoring cannot be used
- B) Credit scoring systems must be statistically valid
- C) Only FICO scores may be used
- D) Credit scores cannot consider payment history

85. The Fair Housing Act covers which types of housing?

- A) Single-family homes only
- B) Rental properties only
- C) Most housing with limited exemptions
- D) Federally subsidized housing only

86. Under TILA, what happens if required disclosures are not provided timely?

- A) Loan must be cancelled
- B) Extended rescission period may apply
- C) Borrower receives automatic rate reduction
- D) No consequences if provided before closing

87. HOEPA prohibits which practice for high-cost mortgages?

- A) Escrow accounts for taxes and insurance
- B) Lending without regard to ability to repay
- C) Fixed interest rates
- D) Down payment requirements

88. Under RESPA, what information must be included in servicing transfer notices?

- A) Reason for transfer only
- B) New servicer contact information only
- C) Effective date, new servicer information, and borrower rights
- D) Outstanding loan balance only

89. The Equal Credit Opportunity Act's definition of "elderly" refers to applicants age:

- A) 55 or older
- B) 60 or older
- C) 62 or older
- D) 65 or older

90. Under TILA, which loans are exempt from right of rescission?

- A) All purchase money loans
- B) Refinances only
- C) Purchase money loans for principal dwellings
- D) Investment property loans only

91. RESPA's application to mortgage loans depends on which factor?

- A) Loan amount only
- B) Property type only

- C) Federal connection of the lender or loan
- D) Borrower's income level

92. Under ECOA, which action regarding joint applicants is prohibited?

- A) Evaluating each applicant's creditworthiness
- B) Requiring both signatures when both are liable
- C) Requesting information about both applicants
- D) Requiring joint application when individual qualification is sufficient

93. The Home Mortgage Disclosure Act requires reporting of which loan decisions?

- A) Approvals only
- B) Denials only
- C) Applications, approvals, denials, and withdrawals
- D) Funded loans only

94. Under TILA, when do finance charges begin accruing for credit accounts?

- A) When account is opened
- B) When first purchase is made
- C) As specified in the account agreement
- D) 30 days after account opening

95. HOEPA's enhanced protections include which requirement?

- A) Mandatory credit counseling for all borrowers
- B) Extended rescission periods
- C) Lower down payment requirements
- D) Reduced documentation standards

96. Under RESPA, which practice regarding title insurance is prohibited?

- A) Requiring title insurance
- B) Recommending title companies
- C) Requiring use of specific title company
- D) Explaining title insurance benefits

97. The Equal Credit Opportunity Act allows consideration of which factor?

- A) Applicant's religion
- B) Applicant's creditworthiness
- C) Applicant's race
- D) Applicant's national origin

98. Under TILA, what information must be disclosed for open-end credit plans?

- A) APR only
- B) Payment terms only
- C) APR, fees, and other cost information
- D) Credit limit only

99. RESPA's enforcement authority belongs to which agency?

- A) CFPB only
- B) Federal banking agencies only
- C) CFPB and other federal banking agencies
- D) State regulators only

100. Under ECOA, what is the maximum time limit for providing adverse action notices?

- A) 15 days after action is taken
- B) 30 days after action is taken or application completion

C) 45 days after application

D) 60 days after application

Practice Question 1 - Federal Mortgage-Related Laws

- 1. B** - A loan made by a bank whose deposits are insured by the FDIC Explanation: RESPA applies to federally related mortgage loans, which include loans made by lenders whose deposits are federally insured, loans intended for sale to GSEs, or loans made by lenders subject to federal supervision.
- 2. A** - A title company paying a mortgage broker \$500 for each loan referral Explanation: RESPA Section 8 prohibits giving or receiving anything of value for referrals of settlement service business. Direct payments for referrals are clear violations.
- 3. B** - A fee charged for services not performed or duplicated services Explanation: An unearned fee under RESPA is any charge for services that are not actually performed or that duplicate services provided by another party.
- 4. B** - Within 3 business days of application Explanation: TRID requires the Loan Estimate to be delivered within 3 business days of receiving a complete application, defined as receiving six pieces of information.
- 5. A** - 15 days Explanation: RESPA requires servicers to provide borrowers with at least 15 days advance notice before transferring servicing to another company.
- 6. C** - Marital status Explanation: ECOA prohibits discrimination based on marital status, along with race, color, religion, national origin, sex, age (if 62 or older), and receipt of public assistance.
- 7. B** - Annual Percentage Rate (APR) Explanation: TILA's primary purpose is to promote informed use of credit by requiring disclosure of the APR, which represents the true cost of credit as an annual rate.
- 8. B** - Within 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.
- 9. B** - A loan secured by a 25-acre farm used for agricultural purposes Explanation: RESPA excludes loans for agricultural purposes when the property is 25 acres or more. Smaller agricultural properties may still be covered.
- 10. B** - Refinance of a primary residence Explanation: TILA's right of rescission applies to refinances and home equity loans secured by principal dwellings, but not to purchase money mortgages.
- 11. C** - Annually Explanation: RESPA requires servicers to perform escrow account analyses at least once per year and provide borrowers with annual escrow statements.
- 12. C** - Income level Explanation: The Fair Housing Act prohibits discrimination based on race, color, religion, sex, national origin, familial status, and disability, but not income level.
- 13. A** - 0.125% Explanation: Under TILA, the APR is considered accurate if it varies from the actual APR by no more than 0.125% for most mortgage loans.

- 14. B** - 30 business days Explanation: RESPA requires servicers to respond to qualified written requests within 30 business days, after acknowledging receipt within 5 business days.
- 15. C** - Asking about birth control practices Explanation: ECOA prohibits inquiries about birth control practices, family planning intentions, or assumptions about childbearing capacity.
- 16. B** - High-cost mortgage loans Explanation: HOEPA provides enhanced protections specifically for high-cost mortgages that exceed certain APR or points and fees thresholds.
- 17. B** - Two months' escrow payments Explanation: RESPA allows lenders to require up to two months of escrow payments at closing as a cushion for the escrow account.
- 18. B** - 3 business days Explanation: TRID requires the Closing Disclosure to be provided at least 3 business days before consummation to give borrowers time to review final terms.
- 19. C** - Either specific reasons or notice of right to request reasons Explanation: ECOA allows creditors to either provide specific reasons for adverse action or inform applicants of their right to request reasons within 60 days.
- 20. C** - A title company paying referral fees to mortgage brokers Explanation: RESPA Section 8 prohibits any payment for referrals of settlement service business, including referral fees between settlement service providers.
- 21. C** - Discount points Explanation: TILA's finance charge includes discount points and other fees charged by the creditor as a condition of the loan, but excludes third-party costs like taxes and insurance.
- 22. B** - 6.5 percentage points 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.
- 23. A** - At the time of referral Explanation: RESPA requires affiliated business arrangement disclosures to be provided at the time the referral is made, not later.
- 24. C** - Asking about an applicant's age to determine legal capacity Explanation: ECOA permits age inquiries when determining legal capacity to contract or when evaluating age-related income for applicants 62 or older.
- 25. C** - All credit transactions Explanation: ECOA applies broadly to all credit transactions, including business credit, consumer credit, and real estate-related credit.
- 26. D** - Whichever occurs last: signing, funding, or disclosure delivery Explanation: TILA's rescission period begins when the last of these three events occurs: contract signing, funding, or delivery of required disclosures.
- 27. C** - A specific title insurance company chosen by the lender Explanation: RESPA prohibits lenders from requiring borrowers to use a particular title insurance company, allowing borrowers to shop for title services.
- 28. B** - Empirically derived and demonstrably statistical sound Explanation: ECOA requires credit scoring systems to be empirically derived, demonstrably and statistically sound, and applied consistently.

- 29. C** - Both payment examples and index information Explanation: TILA requires ARM disclosures to include payment change examples and information about the index and how it affects the interest rate.
- 30. B** - Prepayment penalties exceeding 2% after the first year Explanation: HOEPA prohibits prepayment penalties in most cases for high-cost mortgages, with limited exceptions for early periods.
- 31. B** - Loan Estimate Explanation: TRID replaced RESPA's Good Faith Estimate (GFE) with the Loan Estimate, which combines GFE information with TILA disclosures.
- 32. B** - 60 days Explanation: ECOA gives applicants 60 days from receipt of an adverse action notice to request specific reasons for the adverse action.
- 33. C** - Both CFPB and HUD Explanation: The Fair Housing Act is enforced by both the Consumer Financial Protection Bureau for lending activities and HUD for housing activities.
- 34. B** - Six pieces of information including name, income, and loan amount Explanation: TRID defines a complete application as receiving name, monthly income, SSN, property address, estimated property value, and mortgage loan amount.
- 35. C** - Any business relationships between providers Explanation: RESPA requires disclosure of business relationships between settlement service providers that might affect the cost or quality of services.
- 36. C** - Each applicant may apply separately if they choose Explanation: ECOA allows joint applicants to apply separately if they prefer, and creditors cannot require joint applications when individual qualification is sufficient.
- 37. A** - Race, ethnicity, and sex Explanation: HMDA requires lenders to collect data on applicant race, ethnicity, and sex for monitoring purposes, along with other loan and property information.
- 38. B** - Finance charges only Explanation: TILA's APR calculation includes finance charges (costs imposed by the creditor) but excludes third-party costs like appraisals and title insurance.
- 39. B** - 5% Explanation: HOEPA's points and fees test is generally triggered when total points and fees exceed 5% of the loan amount for loans above a certain threshold.
- 40. B** - Provide services of value proportional to compensation Explanation: RESPA permits marketing service agreements when they provide legitimate services with value reasonably related to the compensation paid.
- 41. C** - All phases of the credit transaction Explanation: ECOA's anti-discrimination requirements apply to all phases of credit transactions, from advertising through servicing and collection.
- 42. B** - The current index value and margin Explanation: TILA requires variable rate disclosures to include the current index value and margin that will be used to determine the interest rate.
- 43. B** - Anything of value for referrals Explanation: RESPA's kickback prohibition covers anything of value given in exchange for referrals, not just cash payments above certain amounts.

- 44. D** - No maximum age limit Explanation: ECOA prohibits age discrimination but allows consideration of age-related factors for applicants 62 or older; there's no maximum age limit.
- 45. B** - 3 business days Explanation: TILA provides borrowers with 3 business days to exercise the right of rescission for qualifying credit transactions.
- 46. C** - Property's collateral value Explanation: HOEPA prohibits making high-cost mortgages based solely on the collateral value of the property without regard to borrower's ability to repay.
- 47. A** - 5 business days to acknowledge, 30 business days to resolve Explanation: RESPA requires servicers to acknowledge qualified written requests within 5 business days and respond substantively within 30 business days.
- 48. B** - The applicant lives in a community property state Explanation: ECOA allows marital status inquiries in community property states, when spousal income is considered, or when both spouses will be liable.
- 49. B** - Families with children under 18 and pregnant women Explanation: Fair Housing Act's familial status protection covers families with children under 18 and pregnant women, regardless of marital status.
- 50. C** - Changes to loan product or addition of prepayment penalty Explanation: TRID requires new waiting periods for material changes including loan product changes, prepayment penalty additions, or significant APR increases.
- 51. B** - Two months' payments Explanation: RESPA allows servicers to maintain escrow cushions of up to two months of escrow payments, or one-sixth of annual escrow disbursements.
- 52. B** - Bankruptcy discharged more than 10 years ago Explanation: ECOA generally allows consideration of credit history, but very old bankruptcy information may have limited relevance to current creditworthiness.
- 53. D** - Both closed-end mortgages and open-end credit plans secured by dwellings Explanation: HOEPA covers both closed-end mortgage loans and open-end credit plans (like HELOCs) when they meet the high-cost thresholds.
- 54. C** - APR and significant terms Explanation: TILA requires credit advertisements to include APR and other significant terms when specific credit terms are mentioned.
- 55. C** - Borrower's right to choose service providers Explanation: RESPA Section 9 requires disclosure of borrowers' rights to choose their own settlement service providers for services they can shop for.
- 56. C** - Denial, counteroffer, or termination of existing credit Explanation: ECOA defines adverse action broadly to include denial, counteroffers with less favorable terms, and termination of existing credit accounts.
- 57. C** - Indicating a preference for certain types of applicants Explanation: Fair Housing Act prohibits advertising that indicates preference, limitation, or discrimination based on protected characteristics.

- 58. A** - Monthly Explanation: TILA requires monthly periodic statements for closed-end mortgage loans, providing payment and account information to borrowers.
- 59. B** - 3 business days Explanation: HOEPA requires enhanced disclosures for high-cost mortgages to be provided at least 3 business days before closing.
- 60. B** - Broker compensation based on loan interest rate Explanation: RESPA prohibits compensation arrangements where brokers receive different amounts based on loan terms, as this creates incentives for steering.
- 61. C** - 25 months Explanation: ECOA requires creditors to maintain records for 25 months for most transactions, with longer periods for certain types of files.
- 62. A** - Any adjustable rate feature Explanation: TILA requires additional ARM disclosures for any loan with adjustable rate features, regardless of adjustment frequency or caps.
- 63. B** - Within 3 business days of application Explanation: RESPA requires lenders to provide the Special Information Booklet within 3 business days of application for federally related mortgages.
- 64. B** - Spouse's income when spouse will be contractually liable Explanation: ECOA allows inquiries about spouse income when the spouse will be contractually liable for the debt or when spousal income is needed for qualification.
- 65. A** - March 1 Explanation: HMDA requires covered lenders to submit their annual data by March 1st of the year following the calendar year for which data was collected.
- 66. B** - Any residential structure Explanation: TILA defines dwelling broadly to include any residential structure for right of rescission purposes, not limited to primary residences.
- 67. B** - Collateral value of the property Explanation: HOEPA's ability-to-repay provisions prohibit lending based solely on collateral value without considering borrower's ability to repay.
- 68. D** - All days except Sundays and federal holidays Explanation: RESPA defines business days as all days except Sundays and federal holidays, which includes Saturdays.
- 69. D** - Lenders meeting specific asset and volume thresholds Explanation: ECOA's monitoring requirements apply to lenders meeting certain size thresholds, not all lenders regardless of size.
- 70. C** - When borrower becomes contractually obligated Explanation: TILA considers a loan consummated when the borrower becomes contractually obligated on the credit transaction.
- 71. C** - Different tolerance levels for different cost categories Explanation: TRID establishes different tolerance levels: zero tolerance for some fees, 10% cumulative tolerance for others, and unlimited tolerance for certain costs.
- 72. A** - Race, ethnicity, and sex on a voluntary basis Explanation: ECOA allows collection of race, ethnicity, and sex information on a voluntary basis for monitoring purposes under certain regulations.
- 73. D** - Reasonable accommodations in rules and policies Explanation: Fair Housing Act requires reasonable accommodations in rules, policies, and practices for persons with disabilities.

- 74. B** - Changes affecting APR by more than 0.125% Explanation: TRID considers changes material when they affect the APR beyond the tolerance threshold, requiring new disclosures and waiting periods.
- 75. C** - High-cost mortgage borrowers Explanation: HOEPA requires homeownership counseling for borrowers obtaining high-cost mortgages as an additional consumer protection.
- 76. B** - When required by state law Explanation: RESPA allows lenders to require attorney services only when mandated by state law, not based on lender preference or loan characteristics.
- 77. D** - Receipt of public assistance income Explanation: ECOA prohibits discrimination based on receipt of public assistance income, though creditors may consider income stability and continuity.
- 78. A** - 15-year index history Explanation: TILA requires disclosure of 15 years of index history (or as much as available) for variable rate loans to help borrowers understand rate volatility.
- 79. B** - Civil penalties up to three times the charge paid Explanation: RESPA violations can result in civil penalties up to three times the amount of the charge paid for kickbacks or unearned fees.
- 80. C** - Written notice explaining monitoring purpose Explanation: ECOA requires written notice explaining the purpose of demographic data collection for government monitoring when such information is requested.
- 81. C** - Both APR and points and fees tests Explanation: HOEPA defines high-cost mortgages using both APR thresholds compared to APOR and points and fees thresholds based on loan amount.
- 82. B** - When exact figures are unknown Explanation: TILA allows estimates when exact figures are not known at the time of disclosure, but requires good faith estimates based on best information available.
- 83. B** - All servicing-related documents and communications Explanation: RESPA requires servicers to maintain comprehensive records of all servicing activities, communications, and borrower account information.
- 84. B** - Credit scoring systems must be statistically valid Explanation: ECOA permits credit scoring but requires systems to be empirically derived, demonstrably and statistically sound, and consistently applied.
- 85. C** - Most housing with limited exemptions Explanation: Fair Housing Act covers most housing transactions, with limited exemptions for small owner-occupied properties and certain religious organizations.
- 86. B** - Extended rescission period may apply Explanation: TILA extends the rescission period to three years when required disclosures are not provided timely or contain material errors.
- 87. B** - Lending without regard to ability to repay Explanation: HOEPA prohibits creditors from making high-cost mortgages without regard to consumers' ability to repay the obligation.
- 88. C** - Effective date, new servicer information, and borrower rights Explanation: RESPA requires servicing transfer notices to include the transfer date, new servicer contact information, and a statement of borrower rights.

- 89. C** - 62 or older Explanation: ECOA defines "elderly" as applicants who are 62 years of age or older for purposes of age-related income considerations.
- 90. C** - Purchase money loans for principal dwellings Explanation: TILA exempts purchase money mortgages for principal dwellings from rescission rights, recognizing the need for transaction certainty in home purchases.
- 91. C** - Federal connection of the lender or loan Explanation: RESPA coverage depends on the federal connection of either the lender (federal supervision/insurance) or the loan (GSE eligibility).
- 92. D** - Requiring joint application when individual qualification is sufficient Explanation: ECOA prohibits requiring joint applications when one applicant individually qualifies for the requested credit.
- 93. C** - Applications, approvals, denials, and withdrawals Explanation: HMDA requires reporting of all application activity including originations, denials, withdrawals, and files closed for incompleteness.
- 94. C** - As specified in the account agreement Explanation: TILA allows creditors to specify in account agreements when finance charges begin accruing on credit accounts.
- 95. B** - Extended rescission periods Explanation: HOEPA provides enhanced protections including extended rescission periods for high-cost mortgages beyond standard TILA requirements.
- 96. C** - Requiring use of specific title company Explanation: RESPA prohibits lenders from requiring borrowers to use specific title insurance companies, preserving borrower choice in settlement services.
- 97. B** - Applicant's creditworthiness Explanation: ECOA permits and expects creditors to consider legitimate creditworthiness factors while prohibiting consideration of protected characteristics.
- 98. C** - APR, fees, and other cost information Explanation: TILA requires comprehensive cost disclosures for open-end credit plans including APR, fees, and other terms that affect the cost of credit.
- 99. C** - CFPB and other federal banking agencies Explanation: RESPA enforcement authority is shared between the CFPB and federal banking agencies based on the type of institution being regulated.
- 100. B** - 30 days after action is taken or application completion Explanation: ECOA requires adverse action notices within 30 days of taking adverse action or within 30 days after receiving a complete application, whichever is earlier.

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 requires mortgage loan originators to be:
 - A) Licensed by states or registered with federal agencies
 - B) Licensed only by the federal government
 - C) Registered only with NMLS
 - D) Certified by individual mortgage companies

2. Under the SAFE Act, what is the minimum number of hours required for pre-licensing education?
 - A) 15 hours
 - B) 20 hours
 - C) 25 hours
 - D) 30 hours

3. The SAFE Act requires continuing education of how many hours annually?
 - A) 6 hours
 - B) 8 hours
 - C) 10 hours
 - D) 12 hours

4. Which entity created the Nationwide Multistate Licensing System (NMLS)?
 - A) Federal Reserve
 - B) Conference of State Bank Supervisors (CSBS)
 - C) Consumer Financial Protection Bureau (CFPB)
 - D) Department of Housing and Urban Development (HUD)

5. Under the SAFE Act, mortgage loan originators must pass a test with a minimum score of:

- A) 70%
- B) 75%
- C) 80%
- D) 85%

6. The SAFE Act defines a mortgage loan originator as an individual who:

- A) Only takes mortgage applications
- B) Takes applications or offers or negotiates mortgage loan terms
- C) Only processes mortgage loans
- D) Only closes mortgage loans

7. Which professionals are exempt from SAFE Act licensing requirements?

- A) Mortgage brokers
- B) Loan officers at mortgage companies
- C) Employees of depository institutions
- D) Independent mortgage loan originators

8. The SAFE Act was enacted in response to problems in the mortgage industry during which time period?

- A) 1990s savings and loan crisis
- B) 2008 financial crisis
- C) 1980s interest rate volatility
- D) 2001 dot-com bubble

9. Under the SAFE Act, how often must mortgage loan originators renew their licenses?

- A) Every 6 months
- B) Annually

- C) Every 2 years
- D) Every 3 years

10. The SAFE Act requires background checks that include:

- A) Criminal history only
- B) Credit reports only
- C) Both criminal history and credit reports
- D) Employment verification only

11. Which of the following is included in the SAFE Act's required pre-licensing education topics?

- A) Real estate law
- B) Federal mortgage-related laws
- C) Property management
- D) Construction lending

12. The SAFE Act continuing education requirement includes how many hours of federal law updates?

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

13. Under the SAFE Act, what is the consequence for operating without a required license?

- A) Warning letter only
- B) Fine only
- C) Criminal penalties possible
- D) Temporary suspension

14. The SAFE Act requires continuing education to include ethics training of:

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

15. Which agency has primary enforcement authority for SAFE Act compliance?

- A) Individual state regulators
- B) Federal Reserve
- C) CFPB
- D) Department of Justice

16. The SAFE Act requires mortgage loan originators to have unique identifiers issued by:

- A) Their employer
- B) State regulators
- C) NMLS
- D) Federal banking agencies

17. Under the SAFE Act, pre-licensing education must cover non-traditional mortgage products for:

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

18. The SAFE Act's definition of mortgage loan originator includes individuals who:

- A) Service existing mortgage loans
- B) Underwrite mortgage applications
- C) Negotiate mortgage loan terms for compensation
- D) Process loan documentation

19. Which factor can permanently disqualify someone from obtaining an MLO license under the SAFE Act?

- A) Late mortgage payments
- B) Felony conviction involving fraud
- C) Traffic violations
- D) Previous bankruptcy

20. The SAFE Act requires states to establish minimum net worth requirements of at least:

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

21. Under the SAFE Act, mortgage loan originators must complete continuing education before:

- A) Their license renewal date
- B) December 31st each year
- C) The anniversary of their initial licensing
- D) Within 6 months of renewal

22. The SAFE Act exempts which type of financing from MLO licensing requirements?

- A) Manufactured housing loans
- B) Seller financing for fewer than 3 properties annually
- C) Reverse mortgages
- D) Construction loans

23. Which organization developed the model state law for SAFE Act implementation?

- A) CSBS only
- B) AARMR only

- C) CSBS and AARMR
- D) NMLS only

24. Under the SAFE Act, what happens if an MLO fails the test three consecutive times?

- A) Permanent disqualification
- B) 180-day waiting period before retesting
- C) Additional education requirement
- D) Supervisory approval needed

25. The SAFE Act requires surety bonds or other comparable financial responsibility mechanisms of at least:

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

26. Which activity requires an MLO license under the SAFE Act?

- A) Clerical data entry
- B) Administrative support
- C) Offering mortgage loan terms to consumers
- D) File maintenance

27. The SAFE Act continuing education requirement includes how many hours on non-traditional mortgage products?

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

28. Under the SAFE Act, employers of registered MLOs must maintain what type of system?

- A) Independent audit system
- B) Compliance management system
- C) Customer service system
- D) Marketing system

29. The SAFE Act allows states to impose requirements that are:

- A) Less stringent than federal minimums
- B) More stringent than federal minimums
- C) Identical to federal requirements only
- D) Completely different from federal requirements

30. Which federal agencies register mortgage loan originators under the SAFE Act?

- A) CFPB only
- B) Federal banking agencies
- C) State banking departments
- D) NMLS directly

31. The SAFE Act requires MLO applicants to demonstrate financial responsibility through:

- A) Credit reports and net worth documentation
- B) Employment verification only
- C) Educational credentials only
- D) Professional references only

32. Under the SAFE Act, how many hours of elective education are required for pre-licensing?

- A) 8 hours
- B) 10 hours
- C) 12 hours
- D) 15 hours

33. The SAFE Act prohibits states from:

- A) Setting higher education requirements
- B) Imposing additional testing requirements
- C) Setting minimum standards below federal requirements
- D) Conducting background checks

34. Which professional activity is specifically excluded from the MLO definition under the SAFE Act?

- A) Taking loan applications
- B) Negotiating loan terms
- C) Making underwriting decisions
- D) Offering loan terms

35. The SAFE Act requires character and fitness standards that include:

- A) Educational background only
- B) Professional experience only
- C) Criminal background and financial responsibility
- D) Personal references only

36. Under the SAFE Act, what is the maximum time between license renewal periods?

- A) 1 year
- B) 2 years
- C) 3 years
- D) 5 years

37. The SAFE Act exempts from licensing requirements individuals who:

- A) Work part-time in mortgage lending
- B) Are attorneys performing mortgage activities incidental to legal practice

- C) Work for mortgage companies with fewer than 10 employees
- D) Have less than 5 years of experience

38. Which type of MLO must register rather than obtain a state license?

- A) Independent mortgage brokers
- B) Mortgage company employees
- C) Depository institution employees
- D) Self-employed loan originators

39. The SAFE Act requires pre-licensing education to include ethics training for:

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

40. Under the SAFE Act, what happens to an MLO's license when they change employers?

- A) License automatically transfers
- B) License becomes inactive until new sponsorship
- C) License must be surrendered
- D) New application required

41. The SAFE Act defines "residential mortgage loan" as any loan secured by:

- A) Any real property
- B) 1-4 family residential property
- C) Single-family homes only
- D) Primary residences only

42. Which agency provides the NMLS unique identifier numbers?

- A) Individual state regulators
- B) Federal banking agencies
- C) NMLS system
- D) CFPB

43. The SAFE Act requires MLOs to maintain their license by:

- A) Paying annual fees only
- B) Completing continuing education only
- C) Both paying fees and completing continuing education
- D) Retaking the licensing exam annually

44. Under the SAFE Act, which criminal conviction would prohibit MLO licensing?

- A) Misdemeanor traffic violation
- B) Felony involving dishonesty within past 7 years
- C) Misdemeanor involving alcohol
- D) Any conviction over 10 years old

45. The SAFE Act allows temporary authority for MLOs when:

- A) Changing employers
- B) Moving between states
- C) Taking continuing education
- D) Renewing licenses

46. Which factor is NOT considered in SAFE Act character and fitness determinations?

- A) Credit history
- B) Criminal background
- C) Educational background
- D) Marital status

47. The SAFE Act requires states to provide MLO information to:

- A) Federal banking agencies only
- B) NMLS for public access
- C) Employers only
- D) Other states only

48. Under the SAFE Act, pre-licensing education must be completed from:

- A) Any accredited institution
- B) NMLS-approved providers
- C) State-approved providers
- D) Employer training programs

49. The SAFE Act continuing education requirement allows how many hours to be completed online?

- A) None
- B) Up to 4 hours
- C) Up to 6 hours
- D) All 8 hours

50. Which violation can result in license revocation under the SAFE Act?

- A) Late license renewal
- B) Failure to update contact information
- C) Fraudulent application information
- D) Changing employers without notification

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

- A) Displayed in advertising and loan documents
- B) Kept confidential by employers

- C) Shared only with borrowers
- D) Used for internal tracking only

52. Under the SAFE Act, what type of entity sponsors MLO licenses?

- A) Any business entity
- B) Licensed mortgage companies or exempt organizations
- C) Individual supervisors
- D) Professional associations

53. The SAFE Act prohibits MLOs from:

- A) Working for multiple employers simultaneously
- B) Offering different loan products
- C) Discussing loan terms with borrowers
- D) Working part-time

54. Which education requirement must be completed annually under the SAFE Act?

- A) Pre-licensing education
- B) Continuing education
- C) Ethics training only
- D) Federal law updates only

55. The SAFE Act allows states to impose additional licensing requirements for:

- A) Education beyond federal minimums
- B) Testing beyond federal requirements
- C) Financial responsibility beyond federal minimums
- D) All of the above

56. Under the SAFE Act, background checks must be updated:

- A) Annually
- B) Every 2 years
- C) Every 3 years
- D) Only upon initial application

57. The SAFE Act's temporary authority provisions allow MLOs to:

- A) Work without any license
- B) Transfer between states more easily
- C) Skip continuing education requirements
- D) Avoid background check updates

58. Which activity would require an individual to obtain an MLO license?

- A) Explaining loan application procedures
- B) Presenting loan options and rates to borrowers
- C) Collecting loan application documents
- D) Scheduling loan closings

59. The SAFE Act requires MLO test scores to remain valid for:

- A) 6 months
- B) 1 year
- C) 2 years
- D) 3 years

60. Under the SAFE Act, what happens if an MLO license lapses?

- A) Automatic renewal with penalty
- B) Must cease mortgage origination activities
- C) Can continue working with restriction
- D) 30-day grace period provided

61. The SAFE Act requires surety bond coverage for:

- A) All MLOs regardless of employer type
- B) State-licensed MLOs only
- C) Federally registered MLOs only
- D) Independent contractors only

62. Which federal law established the SAFE Act requirements?

- A) Dodd-Frank Act
- B) Housing and Economic Recovery Act
- C) Consumer Protection Act
- D) Fair Credit Reporting Act

63. The SAFE Act requires MLO applicants to authorize:

- A) Credit checks only
- B) Criminal background checks only
- C) Both credit and criminal background checks
- D) Employment verification only

64. Under the SAFE Act, continuing education must include:

- A) State-specific law training
- B) Federal law updates
- C) Company policy training
- D) Product-specific training

65. The SAFE Act exempts from licensing individuals who:

- A) Work seasonally in mortgage lending
- B) Negotiate loans for immediate family members only

- C) Work exclusively with commercial loans
- D) Have fewer than 5 years of experience

66. Which organization maintains the NMLS system?

- A) Federal government
- B) State governments collectively
- C) Conference of State Bank Supervisors
- D) Private contractor

67. The SAFE Act requires MLO licenses to be:

- A) Transferable between states
- B) Valid only in the issuing state
- C) Recognized by all states
- D) Issued federally for all states

68. Under the SAFE Act, what constitutes acceptable pre-licensing education?

- A) Self-study materials only
- B) Classroom instruction only
- C) NMLS-approved courses in various formats
- D) On-the-job training only

69. The SAFE Act's character and fitness requirements evaluate:

- A) Technical competence only
- B) Educational background only
- C) Financial responsibility and trustworthiness
- D) Work experience only

70. Which type of loan is specifically included in the SAFE Act's MLO licensing requirements?

- A) Commercial real estate loans
- B) Business lines of credit
- C) Residential mortgage loans
- D) Personal loans

71. The SAFE Act requires states to adopt:

- A) Identical licensing laws
- B) Minimum standards with flexibility for additional requirements
- C) Federal regulations exactly
- D) No additional requirements beyond federal minimums

72. Under the SAFE Act, MLO unique identifiers must be disclosed:

- A) To borrowers upon request only
- B) In loan advertisements and documents
- C) To supervisors only
- D) On business cards only

73. The SAFE Act allows MLOs to be sponsored by:

- A) Any licensed entity
- B) Licensed mortgage companies, depository institutions, or subsidiaries
- C) Individual supervisors with experience
- D) Professional trade associations

74. Which factor can disqualify an MLO applicant under the SAFE Act?

- A) Previous employment in non-financial industry
- B) Lack of college education
- C) Revocation of professional license for fraud
- D) Living in a different state than employment

75. The SAFE Act requires continuing education to be completed:

- A) Before license expiration each year
- B) By December 31st annually
- C) Within 30 days of license anniversary
- D) Before accepting new employment

76. Under the SAFE Act, what type of training must be included in continuing education?

- A) Sales techniques
- B) Ethics and consumer protection
- C) Company policies
- D) Technology training

77. The SAFE Act allows states to require MLO applicants to:

- A) Have specific college degrees
- B) Meet minimum age requirements
- C) Live within state borders
- D) Have mortgage industry experience

78. Which activity is exempt from MLO licensing under the SAFE Act?

- A) Discussing loan terms with borrowers
- B) Administrative or clerical tasks
- C) Presenting loan options to customers
- D) Negotiating interest rates

79. The SAFE Act requires MLO test results to be:

- A) Kept confidential by testing agencies
- B) Reported to NMLS

- C) Shared with employers only
- D) Available to borrowers upon request

80. Under the SAFE Act, how long must MLOs maintain their licenses to continue originating loans?

- A) Licenses never expire
- B) Licenses must be maintained continuously
- C) Licenses expire after 5 years
- D) Licenses expire after 10 years

81. The SAFE Act's financial responsibility requirements include:

- A) Minimum income thresholds
- B) Surety bonds and net worth requirements
- C) Property ownership requirements
- D) Investment portfolio requirements

82. Which entity has authority to examine SAFE Act compliance?

- A) Only federal banking agencies
- B) Only state regulators
- C) Both state and federal regulators
- D) Only NMLS

83. The SAFE Act requires pre-licensing education to cover:

- A) State law only
- B) Federal law only
- C) Both federal law and ethics
- D) Company policies only

84. Under the SAFE Act, what happens if an MLO commits fraud?

- A) Warning letter issued
- B) License suspension only
- C) License revocation and possible criminal charges
- D) Continuing education requirement

85. The SAFE Act allows temporary MLO authority for:

- A) Recent graduates
- B) MLOs transferring between states
- C) Part-time workers
- D) Retired MLOs returning to work

86. Which background check requirement applies under the SAFE Act?

- A) Local criminal history only
- B) Federal criminal history only
- C) State and federal criminal history
- D) Employment verification only

87. The SAFE Act requires MLO advertising to include:

- A) Company licensing information
- B) MLO unique identifier
- C) State regulator contact information
- D) NMLS website reference

88. Under the SAFE Act, continuing education hours must be completed:

- A) All in classroom settings
- B) All online
- C) In NMLS-approved formats
- D) Through employer training only

89. The SAFE Act prohibits MLOs from:

- A) Working evenings and weekends
- B) Originating loans in multiple states
- C) Providing false information on applications
- D) Discussing loan terms with borrowers

90. Which professional can perform mortgage activities without MLO licensing?

- A) Real estate agents arranging financing
- B) Attorneys in certain circumstances
- C) Insurance agents selling mortgage protection
- D) Financial planners recommending loans

91. The SAFE Act requires states to provide regulatory oversight including:

- A) Annual examinations of all MLOs
- B) Investigation of consumer complaints
- C) Approval of all loan applications
- D) Setting of mortgage interest rates

92. Under the SAFE Act, what type of authority do federal banking agencies have over MLOs?

- A) Direct licensing authority
- B) Registration authority for their institution's employees
- C) No authority over MLOs
- D) Advisory authority only

93. The SAFE Act's surety bond requirements protect:

- A) MLOs from liability
- B) Employers from employee mistakes

- C) Consumers and state agencies from MLO misconduct
- D) Lenders from borrower defaults

94. Which factor must be disclosed by MLO applicants under the SAFE Act?

- A) Personal financial information
- B) Professional references
- C) Criminal and regulatory actions
- D) Educational transcripts

95. The SAFE Act requires MLO licenses to be:

- A) Portable between all states
- B) Renewed through the issuing state
- C) Transferred to new employers automatically
- D) Valid for multiple years without renewal

96. Under the SAFE Act, what constitutes mortgage loan origination?

- A) Processing loan applications only
- B) Taking applications, offering terms, or negotiating loans
- C) Closing loans only
- D) Servicing existing loans

97. The SAFE Act allows which type of exemption from licensing?

- A) Individuals working fewer than 20 hours per week
- B) Employees of federally supervised institutions
- C) MLOs with more than 10 years of experience
- D) Part-time seasonal workers

98. Which agency enforcement action can result from SAFE Act violations?

- A) Warning letters only
- B) Fines and license revocation
- C) Temporary suspension only
- D) Additional education requirements only

99. The SAFE Act requires MLO education to be obtained from:

- A) Any educational institution
- B) Approved providers meeting NMLS standards
- C) Employers only
- D) Online sources only

100. Under the SAFE Act, what is the consequence of working as an MLO without proper licensing?

- A) Warning and education requirement
- B) Fine only
- C) Prohibition from future licensing and possible criminal charges
- D) Temporary work restriction only

Practice Question 2 - Uniform State Content

- 1. A** - Licensed by states or registered with federal agencies Explanation: The SAFE Act creates a dual system where MLOs are either state-licensed (for non-depository institutions) or federally registered (for depository institutions).
- 2. B** - 20 hours Explanation: The SAFE Act requires a minimum of 20 hours of pre-licensing education, though states may require additional hours.
- 3. B** - 8 hours Explanation: The SAFE Act mandates 8 hours of continuing education annually to maintain MLO licenses.
- 4. B** - Conference of State Bank Supervisors (CSBS) Explanation: CSBS, in partnership with AARMR, created and maintains the NMLS system for state regulatory coordination.
- 5. B** - 75% Explanation: The SAFE Act requires MLOs to achieve a passing score of at least 75% on the national licensing exam.
- 6. B** - Takes applications or offers or negotiates mortgage loan terms Explanation: The SAFE Act defines MLOs as individuals who take applications, offer terms, or negotiate terms for compensation, not just those who take applications.
- 7. C** - Employees of depository institutions Explanation: Employees of banks, credit unions, and other federally supervised depository institutions are exempt from state licensing and instead register federally.
- 8. B** - 2008 financial crisis Explanation: The SAFE Act was enacted in 2008 as part of the Housing and Economic Recovery Act in response to the mortgage crisis.
- 9. B** - Annually Explanation: MLO licenses must be renewed annually, though states set specific renewal dates and requirements.
- 10. C** - Both criminal history and credit reports Explanation: The SAFE Act requires comprehensive background checks including both criminal history and credit reports to assess character and fitness.
- 11. B** - Federal mortgage-related laws Explanation: Pre-licensing education must include 3 hours of federal mortgage-related laws including RESPA, TILA, ECOA, and Fair Housing Act.
- 12. C** - 3 hours Explanation: Annual continuing education must include 3 hours of federal law updates and emerging issues.
- 13. C** - Criminal penalties possible Explanation: Operating without required MLO licensing can result in both civil and criminal penalties under the SAFE Act.

- 14. B** - 2 hours Explanation: Continuing education must include 2 hours of ethics training covering fraud, consumer protection, and fair lending issues.
- 15. A** - Individual state regulators Explanation: State regulators have primary enforcement authority for SAFE Act compliance, though federal agencies oversee registered MLOs.
- 16. C** - NMLS Explanation: The NMLS system issues unique identifiers to all MLOs that follow them throughout their careers regardless of employer changes.
- 17. B** - 2 hours Explanation: Pre-licensing education must include 2 hours covering non-traditional mortgage products and their associated risks.
- 18. C** - Negotiate mortgage loan terms for compensation Explanation: The MLO definition includes taking applications, offering terms, or negotiating terms for compensation, but excludes purely administrative functions.
- 19. B** - Felony conviction involving fraud Explanation: Felony convictions involving acts of fraud, dishonesty, breach of trust, or money laundering can permanently disqualify MLO applicants.
- 20. B** - \$20,000 Explanation: The SAFE Act requires states to establish minimum net worth requirements of at least \$20,000, though many states set higher amounts.
- 21. B** - December 31st each year Explanation: Continuing education must be completed by December 31st of each year to maintain license eligibility.
- 22. B** - Seller financing for fewer than 3 properties annually Explanation: The SAFE Act exempts individuals who provide seller financing for 3 or fewer properties in any 12-month period.
- 23. C** - CSBS and AARMR Explanation: The Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators jointly developed the model state law.
- 24. B** - 180-day waiting period before retesting Explanation: After three consecutive test failures, MLOs must wait 180 days before being eligible to retake the exam.
- 25. 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.
- 26. C** - Offering mortgage loan terms to consumers Explanation: Offering loan terms constitutes loan origination activity requiring MLO licensing, while clerical functions are exempt.
- 27. B** - 2 hours Explanation: Annual continuing education must include 2 hours on non-traditional mortgage products, maintaining knowledge of product risks.
- 28. B** - Compliance management system Explanation: Depository institutions employing registered MLOs must maintain systems to ensure compliance with SAFE Act requirements.

- 29. B** - More stringent than federal minimums Explanation: The SAFE Act establishes minimum federal standards but allows states to impose additional, more stringent requirements.
- 30. B** - Federal banking agencies Explanation: Federal banking agencies (OCC, FDIC, Federal Reserve, NCUA) register MLOs employed by institutions under their supervision.
- 31. A** - Credit reports and net worth documentation Explanation: Financial responsibility is demonstrated through credit history review and meeting minimum net worth requirements.
- 32. C** - 12 hours Explanation: Of the 20-hour pre-licensing requirement, 12 hours are electives covering mortgage-related topics beyond the mandated subjects.
- 33. C** - Setting minimum standards below federal requirements Explanation: States cannot set standards below federal minimums but may exceed them with additional requirements.
- 34. C** - Making underwriting decisions Explanation: Underwriting decisions are specifically excluded from the MLO definition, as are purely administrative or clerical functions.
- 35. C** - Criminal background and financial responsibility Explanation: Character and fitness standards evaluate both criminal history and financial responsibility through background checks and credit reviews.
- 36. C** - 3 years Explanation: The SAFE Act allows license terms up to 3 years, though most states require annual renewal.
- 37. B** - Are attorneys performing mortgage activities incidental to legal practice Explanation: Licensed attorneys performing mortgage activities as part of their legal practice are exempt from MLO licensing requirements.
- 38. C** - Depository institution employees Explanation: MLOs employed by federally supervised depository institutions register with federal agencies rather than obtaining state licenses.
- 39. C** - 3 hours Explanation: Pre-licensing education must include 3 hours of ethics instruction covering professional obligations and consumer protection.
- 40. B** - License becomes inactive until new sponsorship Explanation: MLO licenses become inactive when employment ends and require new sponsorship to reactivate.
- 41. B** - 1-4 family residential property Explanation: The SAFE Act applies to loans secured by 1-4 family residential properties, including primary residences, second homes, and investment properties.
- 42. C** - NMLS system Explanation: The NMLS system generates and maintains unique identifier numbers for all licensed and registered MLOs.
- 43. C** - Both paying fees and completing continuing education Explanation: License maintenance requires both payment of renewal fees and completion of required continuing education.

- 44. B** - Felony involving dishonesty within past 7 years Explanation: Recent felony convictions involving dishonesty, breach of trust, or money laundering prohibit MLO licensing.
- 45. B** - Moving between states Explanation: Temporary authority provisions facilitate MLO transfers between states while new state licensing applications are processed.
- 46. D** - Marital status Explanation: Character and fitness evaluations consider financial and criminal history but cannot consider protected characteristics like marital status.
- 47. B** - NMLS for public access Explanation: The SAFE Act requires MLO information to be available through NMLS for public access and verification.
- 48. B** - NMLS-approved providers Explanation: Pre-licensing education must be completed through providers approved by NMLS to ensure quality and content standards.
- 49. D** - All 8 hours Explanation: The SAFE Act allows all continuing education hours to be completed online through approved providers.
- 50. C** - Fraudulent application information Explanation: Providing false or misleading information on license applications constitutes fraud that can result in license revocation.
- 51. A** - Displayed in advertising and loan documents Explanation: MLO unique identifiers must be displayed in advertisements and on loan documents to enable consumer verification.
- 52. B** - Licensed mortgage companies or exempt organizations Explanation: MLOs must be sponsored by licensed mortgage companies, depository institutions, or their subsidiaries.
- 53. A** - Working for multiple employers simultaneously Explanation: The SAFE Act generally prohibits MLOs from working for multiple employers simultaneously without proper licensing.
- 54. B** - Continuing education Explanation: The 8-hour continuing education requirement must be completed annually to maintain license eligibility.
- 55. D** - All of the above Explanation: States may impose additional requirements for education, testing, and financial responsibility beyond federal minimums.
- 56. A** - Annually Explanation: Background checks must be updated annually as part of the license renewal process.
- 57. B** - Transfer between states more easily Explanation: Temporary authority provisions allow MLOs to continue working while transferring licenses between states.
- 58. B** - Presenting loan options and rates to borrowers Explanation: Presenting loan options and rates constitutes offering loan terms, which requires MLO licensing.

- 59. D** - 3 years Explanation: Passing test scores remain valid for 3 years, allowing time for license application and approval.
- 60. B** - Must cease mortgage origination activities Explanation: MLOs with lapsed licenses cannot continue origination activities until licenses are renewed or reactivated.
- 61. B** - State-licensed MLOs only Explanation: Surety bond requirements apply to state-licensed MLOs, while federally registered MLOs rely on their institution's supervision.
- 62. B** - Housing and Economic Recovery Act Explanation: The SAFE Act was enacted as part of the Housing and Economic Recovery Act of 2008.
- 63. C** - Both credit and criminal background checks Explanation: MLO applicants must authorize comprehensive background checks including both credit and criminal history reviews.
- 64. B** - Federal law updates Explanation: Continuing education must include 3 hours of federal law updates and emerging issues annually.
- 65. B** - Negotiate loans for immediate family members only Explanation: Individuals providing financing only to immediate family members are exempt from MLO licensing requirements.
- 66. C** - Conference of State Bank Supervisors Explanation: CSBS owns and operates the NMLS system on behalf of state regulators.
- 67. 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.
- 68. C** - NMLS-approved courses in various formats Explanation: Pre-licensing education can be completed through various formats (classroom, online, etc.) from NMLS-approved providers.
- 69. C** - Financial responsibility and trustworthiness Explanation: Character and fitness standards evaluate an individual's financial responsibility and trustworthiness to protect consumers.
- 70. C** - Residential mortgage loans Explanation: The SAFE Act specifically applies to residential mortgage loans secured by 1-4 family properties.
- 71. B** - Minimum standards with flexibility for additional requirements Explanation: The SAFE Act establishes minimum federal standards while allowing states flexibility to impose additional requirements.
- 72. B** - In loan advertisements and documents Explanation: MLO unique identifiers must be clearly displayed in advertisements and loan documentation for consumer verification.
- 73. B** - Licensed mortgage companies, depository institutions, or subsidiaries Explanation: MLO sponsorship is limited to licensed mortgage companies, depository institutions, or their subsidiaries.

- 74. C** - Revocation of professional license for fraud Explanation: Revocation of any professional license for fraud demonstrates character issues that can disqualify MLO applicants.
- 75. A** - Before license expiration each year Explanation: Continuing education must be completed before the license expiration date each year to maintain eligibility.
- 76. B** - Ethics and consumer protection Explanation: Continuing education must include ethics training focusing on consumer protection and professional responsibilities.
- 77. B** - Meet minimum age requirements Explanation: States may establish minimum age requirements for MLO licensing, typically 18 or 21 years old.
- 78. B** - Administrative or clerical tasks Explanation: The SAFE Act specifically exempts individuals performing only administrative or clerical tasks from licensing requirements.
- 79. B** - Reported to NMLS Explanation: Test results are reported to NMLS to maintain records of MLO qualifications and testing history.
- 80. B** - Licenses must be maintained continuously Explanation: MLO licenses must be maintained continuously through annual renewal to continue origination activities.
- 81. B** - Surety bonds and net worth requirements Explanation: Financial responsibility requirements include maintaining minimum net worth and surety bond coverage.
- 82. C** - Both state and federal regulators Explanation: Both state regulators (for licensed MLOs) and federal agencies (for registered MLOs) have examination authority.
- 83. C** - Both federal law and ethics Explanation: Pre-licensing education must cover federal mortgage laws (3 hours) and ethics (3 hours) among other required topics.
- 84. C** - License revocation and possible criminal charges Explanation: Fraud can result in both administrative penalties (license revocation) and criminal prosecution.
- 85. B** - MLOs transferring between states Explanation: Temporary authority provisions specifically address MLOs transferring between states while new licenses are processed.
- 86. C** - State and federal criminal history Explanation: Background checks must include both state and federal criminal history to ensure comprehensive evaluation.
- 87. B** - MLO unique identifier Explanation: MLO unique identifiers must be included in advertising to enable consumer verification of licensing status.
- 88. C** - In NMLS-approved formats Explanation: Continuing education must be completed through NMLS-approved providers and formats to ensure quality standards.

- 89. C** - Providing false information on applications Explanation: The SAFE Act prohibits providing false or misleading information on license applications or to regulators.
- 90. B** - Attorneys in certain circumstances Explanation: Licensed attorneys performing mortgage activities incidental to their legal practice may be exempt from MLO licensing.
- 91. B** - Investigation of consumer complaints Explanation: State regulatory oversight includes investigating consumer complaints against licensed MLOs and taking appropriate action.
- 92. B** - Registration authority for their institution's employees Explanation: Federal banking agencies register MLOs employed by institutions under their supervision rather than licensing them.
- 93. C** - Consumers and state agencies from MLO misconduct Explanation: Surety bonds protect consumers and state agencies from financial losses due to MLO violations or misconduct.
- 94. C** - Criminal and regulatory actions Explanation: MLO applicants must disclose any criminal convictions and regulatory actions taken against them in any jurisdiction.
- 95. B** - Renewed through the issuing state Explanation: MLO licenses must be renewed through the state that issued them according to that state's renewal requirements.
- 96. B** - Taking applications, offering terms, or negotiating loans Explanation: Mortgage loan origination includes taking applications, offering loan terms, or negotiating loan terms for compensation.
- 97. B** - Employees of federally supervised institutions Explanation: The SAFE Act exempts employees of federally supervised depository institutions from state licensing requirements.
- 98. B** - Fines and license revocation Explanation: SAFE Act violations can result in various enforcement actions including fines, license suspension or revocation.
- 99. B** - Approved providers meeting NMLS standards Explanation: MLO education must be obtained from providers approved by NMLS that meet specific content and quality standards.
- 100. C** - Prohibition from future licensing and possible criminal charges Explanation: Working without proper licensing can result in prohibition from future licensing and criminal prosecution under the SAFE Act.

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. What does "QM" stand for in mortgage lending?
 - A) Quality Mortgage
 - B) Qualified Mortgage
 - C) Quick Mortgage
 - D) Quantified Mortgage

2. Under the QM rule, what is the maximum debt-to-income ratio for most mortgages?
 - A) 36%
 - B) 41%
 - C) 43%
 - D) 45%

3. Which of the following is a prohibited feature for Qualified Mortgages?
 - A) Fixed interest rates
 - B) 30-year terms
 - C) Interest-only payments
 - D) Principal and interest payments

4. What is the maximum points and fees threshold for QM loans?
 - A) 2% of loan amount
 - B) 3% of loan amount
 - C) 5% of loan amount
 - D) 8% of loan amount

5. FHA loans require a minimum down payment of:

- A) 0%
- B) 3%
- C) 3.5%
- D) 5%

6. VA loans are available to:

- A) All first-time homebuyers
- B) Eligible veterans and service members
- C) Government employees only
- D) Low-income borrowers only

7. USDA loans are designed for properties in:

- A) Urban areas only
- B) Suburban areas only
- C) Rural and eligible suburban areas
- D) Any location nationwide

8. The conforming loan limit for 2024 in most areas is:

- A) \$548,250
- B) \$647,200
- C) \$766,550
- D) \$1,149,825

9. Conventional loans typically require private mortgage insurance (PMI) when the loan-to-value ratio exceeds:

- A) 75%
- B) 78%

- C) 80%
- D) 85%

10. An adjustable-rate mortgage (ARM) with a 5/1 structure means:

- A) 5% interest rate for 1 year
- B) Rate adjusts every 5 years for 1 year
- C) Fixed rate for 5 years, then adjusts annually
- D) 5 payments per year for 1 year

11. The primary difference between a 15-year and 30-year mortgage is:

- A) Interest rate only
- B) Monthly payment amount only
- C) Both payment amount and total interest paid
- D) Qualification requirements only

12. Jumbo loans are mortgages that:

- A) Have terms longer than 30 years
- B) Exceed conforming loan limits
- C) Are used for commercial properties
- D) Have balloon payment features

13. Which government agency insures FHA loans?

- A) Veterans Administration (VA)
- B) Department of Agriculture (USDA)
- C) Department of Housing and Urban Development (HUD)
- D) Federal Housing Finance Agency (FHFA)

14. VA funding fees are:

- A) Always required for all VA loans
- B) Can be financed into the loan amount
- C) Must be paid in cash at closing
- D) Not charged to disabled veterans

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

- 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

16. USDA loans require borrowers to meet:

- A) Geographic and income eligibility requirements
- B) Military service requirements
- C) First-time homebuyer requirements
- D) Age requirements only

17. Interest-only mortgages allow borrowers to:

- A) Pay no monthly payments for a period
- B) Pay only interest for a specified period
- C) Pay only principal for a specified period
- D) Pay below-market interest rates

18. Which factor does NOT typically affect mortgage interest rates?

- A) Credit score
- B) Loan-to-value ratio
- C) Loan term
- D) Borrower's age

19. The debt-to-income ratio includes:

- A) Proposed mortgage payment only
- B) All monthly debt obligations
- C) Annual income only
- D) Property taxes only

20. Mortgage insurance on FHA loans:

- A) Can be cancelled after 2 years
- B) Is required for the life of most loans
- C) Is only required for high-risk borrowers
- D) Is optional for borrowers with good credit

21. The purpose of an appraisal is to:

- A) Determine borrower creditworthiness
- B) Establish property market value
- C) Calculate monthly payments
- D) Verify employment history

22. Which loan type typically offers the lowest interest rates?

- A) FHA loans
- B) VA loans
- C) Conventional loans
- D) USDA loans

23. A balloon mortgage features:

- A) Gradually increasing payments
- B) Interest-only payments throughout

- C) A large final payment
- D) No down payment requirement

24. The cash-to-close amount includes:

- A) Down payment only
- B) Closing costs only
- C) Down payment and closing costs minus credits
- D) Loan amount only

25. Fannie Mae and Freddie Mac are:

- A) Federal government agencies
- B) Government-sponsored enterprises (GSEs)
- C) Private mortgage companies
- D) State regulatory agencies

26. Which documentation is typically required for conventional loan qualification?

- A) Tax returns and pay stubs
- B) Bank statements only
- C) Employment verification only
- D) Credit report only

27. The term "underwater" in mortgage lending refers to:

- A) Flood-damaged properties
- B) Loans with negative amortization
- C) Properties worth less than the mortgage balance
- D) Loans in foreclosure proceedings

28. PMI can typically be removed when:

- A) The borrower requests it
- B) The loan balance reaches 78% of original property value
- C) Two years have passed since closing
- D) The borrower refinances

29. Which loan program requires no down payment?

- A) FHA loans
- B) Conventional loans
- C) VA and USDA loans
- D) Jumbo loans

30. The housing expense ratio typically should not exceed:

- A) 25% of gross monthly income
- B) 28% of gross monthly income
- C) 31% of gross monthly income
- D) 36% of gross monthly income

31. Mortgage rates are most directly influenced by:

- A) Federal Reserve policy and bond market conditions
- B) Individual lender policies only
- C) State government regulations
- D) Local real estate market conditions

32. Which is NOT a typical closing cost?

- A) Title insurance
- B) Appraisal fee
- C) Property taxes
- D) Moving expenses

33. A borrower's credit score primarily affects:

- A) Loan amount eligibility
- B) Interest rate and loan approval
- C) Property type restrictions
- D) Loan term options

34. Escrow accounts are used to pay:

- A) Monthly mortgage principal and interest
- B) Property taxes and homeowners insurance
- C) Private mortgage insurance only
- D) Homeowners association fees only

35. The difference between APR and interest rate is:

- A) APR includes additional costs and fees
- B) They are always the same
- C) APR is always lower than interest rate
- D) Interest rate includes closing costs

36. Which loan type is best suited for borrowers planning to move within 5-7 years?

- A) 30-year fixed
- B) 15-year fixed
- C) 5/1 ARM
- D) Interest-only

37. Mortgage discount points:

- A) Reduce the loan amount
- B) Lower the interest rate

- C) Eliminate PMI requirements
- D) Extend the loan term

38. The front-end ratio refers to:

- A) Total debt-to-income ratio
- B) Housing expense-to-income ratio
- C) Loan-to-value ratio
- D) Down payment percentage

39. Which is a characteristic of non-conforming loans?

- A) They exceed GSE purchase limits or guidelines
- B) They have government insurance
- C) They require no documentation
- D) They have below-market interest rates

40. Mortgage insurance protects:

- A) The borrower from default
- B) The lender from borrower default
- C) The property from damage
- D) The real estate agent from liability

41. Which factor is most important in determining loan approval?

- A) Property location
- B) Borrower's ability to repay
- C) Loan amount
- D) Interest rate requested

42. A construction-to-permanent loan:

- A) Requires two separate closings
- B) Converts from construction financing to permanent mortgage
- C) Is only for commercial properties
- D) Requires no down payment

43. The maximum loan amount for VA loans is determined by:

- A) VA loan limits
- B) Conforming loan limits
- C) Borrower's entitlement and county limits
- D) Property type only

44. Which mortgage feature allows borrowers to avoid PMI?

- A) 20% down payment on conventional loans
- B) Perfect credit score
- C) High income level
- D) Short loan term

45. Reverse mortgages are available to borrowers who are:

- A) First-time homebuyers
- B) 62 years or older
- C) Self-employed
- D) Military veterans

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

- A) Property damage
- B) Borrower default
- C) Title defects and ownership disputes
- D) Interest rate changes

47. Which loan program has the most flexible credit requirements?

- A) Conventional loans
- B) FHA loans
- C) VA loans
- D) Jumbo loans

48. A rate lock protects borrowers from:

- A) Property value decreases
- B) Interest rate increases during processing
- C) Closing cost increases
- D) Credit score changes

49. The secondary mortgage market refers to:

- A) Second mortgage lending
- B) Where loans are bought and sold after origination
- C) Subprime lending market
- D) Government loan programs

50. Which is true about FHA mortgage insurance premiums?

- A) They are refundable
- B) They include both upfront and annual components
- C) They are only charged to high-risk borrowers
- D) They can be avoided with perfect credit

51. The term "seasoning" in mortgage lending refers to:

- A) Interest rate adjustments over time
- B) Length of time funds have been in borrower's accounts

- C) Property age requirements
- D) Loan maturity period

52. Which loan type typically has the highest fees?

- A) VA loans
- B) FHA loans
- C) Conventional loans
- D) USDA loans

53. A borrower with a 580 credit score would most likely qualify for:

- A) Conventional loan with 5% down
- B) FHA loan with 3.5% down
- C) VA loan (if eligible)
- D) Jumbo loan

54. The Community Reinvestment Act encourages banks to:

- A) Offer below-market interest rates
- B) Lend in low and moderate-income communities
- C) Provide loans without documentation
- D) Avoid high-risk borrowers

55. Which government agency guarantees USDA loans?

- A) Department of Housing and Urban Development
- B) Department of Agriculture
- C) Veterans Administration
- D) Federal Housing Administration

56. The loan origination fee typically ranges from:

- A) 0.25% to 0.5% of loan amount
- B) 0.5% to 1% of loan amount
- C) 1% to 2% of loan amount
- D) 2% to 3% of loan amount

57. Assumable loans allow:

- A) Multiple borrowers on one loan
- B) New buyers to take over existing loan terms
- C) Borrowers to assume lower interest rates
- D) Lenders to assume default risk

58. The purpose of homeowners insurance is to protect:

- A) The lender's interest in the property
- B) The borrower from liability
- C) Both the property and lender's interest
- D) Against title defects

59. Which factor does NOT affect PMI premiums?

- A) Credit score
- B) Loan-to-value ratio
- C) Property location
- D) Borrower's age

60. A streamline refinance typically:

- A) Requires a new appraisal
- B) Has reduced documentation requirements
- C) Is only available for conventional loans
- D) Requires cash out

61. The 80/10/10 loan structure refers to:

- A) Interest rate, term, and fees
- B) First mortgage, second mortgage, and down payment
- C) Principal, interest, and escrow
- D) Borrower, co-borrower, and guarantor contributions

62. Which is NOT a typical source of down payment funds?

- A) Savings account
- B) Gift from family member
- C) Borrowed funds from credit cards
- D) Sale of another property

63. The Truth in Lending Act requires disclosure of:

- A) Property condition
- B) Neighborhood information
- C) Annual Percentage Rate (APR)
- D) Borrower employment history

64. Mortgage forbearance allows borrowers to:

- A) Permanently reduce their mortgage balance
- B) Temporarily reduce or pause payments
- C) Transfer the mortgage to another property
- D) Eliminate interest charges

65. Which loan feature typically results in the lowest monthly payment?

- A) 15-year fixed rate
- B) 30-year fixed rate

- C) Interest-only ARM
- D) Biweekly payments

66. The Home Affordable Refinance Program (HARP) was designed for borrowers who:

- A) Are first-time homebuyers
- B) Are underwater on their mortgages
- C) Have perfect credit
- D) Want to cash out equity

67. Mortgage servicing refers to:

- A) Property maintenance requirements
- B) Loan payment collection and account management
- C) Real estate agent services
- D) Property insurance services

68. Which is true about adjustable-rate mortgages?

- A) Rates never decrease
- B) Payment amounts are always fixed
- C) Rates adjust based on market index movements
- D) They always have higher rates than fixed loans

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

- A) Credit history
- B) Income level
- C) Marital status
- D) Employment type

70. Which closing cost is typically the borrower's largest expense?

- A) Appraisal fee
- B) Title insurance
- C) Loan origination fee
- D) Recording fees

71. A mortgage with a prepayment penalty:

- A) Allows early payoff without cost
- B) Charges a fee for early loan payoff
- C) Requires automatic payments
- D) Has a variable interest rate

72. The purpose of mortgage underwriting is to:

- A) Set interest rates
- B) Evaluate loan risk and borrower qualifications
- C) Prepare closing documents
- D) Schedule property inspections

73. Which loan type offers the most protection against interest rate increases?

- A) Fixed-rate mortgage
- B) Adjustable-rate mortgage
- C) Interest-only loan
- D) Balloon mortgage

74. The debt service coverage ratio is primarily used for:

- A) Residential mortgages
- B) Commercial real estate loans
- C) Construction loans
- D) Reverse mortgages

75. Which is NOT typically included in monthly mortgage payments?

- A) Principal
- B) Interest
- C) Property taxes
- D) Homeowners association dues

76. A bridge loan is used to:

- A) Finance property repairs
- B) Provide temporary financing between transactions
- C) Consolidate multiple mortgages
- D) Avoid mortgage insurance

77. The Housing Choice Voucher Program (Section 8) can be used for:

- A) Down payment assistance only
- B) Monthly rent payments
- C) Property purchase assistance
- D) Closing cost assistance

78. Which document provides borrowers with a summary of loan terms and costs?

- A) Promissory note
- B) Deed of trust
- C) Loan Estimate
- D) Property deed

79. Mortgage fraud typically involves:

- A) High interest rates
- B) Excessive closing costs

- C) Material misrepresentation of information
- D) Long loan terms

80. Which factor most significantly affects a borrower's purchasing power?

- A) Property taxes
- B) Interest rates
- C) Homeowners insurance costs
- D) HOA fees

81. The purpose of a home inspection is to:

- A) Determine property value
- B) Identify property condition issues
- C) Verify property ownership
- D) Calculate property taxes

82. Which loan program requires mortgage insurance for the entire loan term?

- A) Conventional loans
- B) VA loans
- C) Most FHA loans originated after 2013
- D) USDA loans

83. A lease-purchase agreement allows:

- A) Immediate property ownership
- B) Rental with option to purchase
- C) Shared property ownership
- D) Property management services

84. The Real Estate Settlement Procedures Act (RESPA) requires:

- A) Specific interest rates
- B) Standardized loan terms
- C) Disclosure of settlement costs
- D) Government loan insurance

85. Which is characteristic of a portfolio loan?

- A) Sold to government agencies
- B) Kept by the originating lender
- C) Only available to first-time buyers
- D) Requires perfect credit

86. Mortgage rate locks typically last:

- A) 7-15 days
- B) 15-30 days
- C) 30-60 days
- D) 90-120 days

87. The Community Development Financial Institutions (CDFI) program focuses on:

- A) High-income borrowers
- B) Commercial lending only
- C) Underserved communities
- D) Government employees

88. Which feature is common in adjustable-rate mortgages?

- A) Payment caps
- B) Interest rate caps
- C) Both payment and rate caps
- D) No protection against rate increases

89. The purpose of a property survey is to:

- A) Determine market value
- B) Identify property boundaries and easements
- C) Assess property condition
- D) Calculate property taxes

90. Which loan type typically has the fastest approval process?

- A) FHA loans
- B) VA loans
- C) Conventional loans
- D) USDA loans

91. A borrower's reserves refer to:

- A) Down payment funds
- B) Liquid assets remaining after closing
- C) Credit available on credit cards
- D) Future income potential

92. The Federal Housing Finance Agency (FHFA) regulates:

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

93. Which is true about mortgage interest deductions?

- A) All mortgage interest is tax deductible
- B) Deductions are subject to limits and requirements

- C) Only FHA loan interest is deductible
- D) Deductions are automatic regardless of loan type

94. A manufactured home loan differs from a traditional mortgage because:

- A) It always has higher interest rates
- B) The home may be personal property rather than real estate
- C) It requires larger down payments
- D) It cannot be government-insured

95. The purpose of mortgage insurance disclosure is to:

- A) Explain insurance coverage details
- B) Inform borrowers about MI costs and cancellation rights
- C) Require borrowers to purchase insurance
- D) Compare insurance companies

96. Which loan program is specifically designed for teachers, firefighters, and law enforcement?

- A) FHA loans
- B) VA loans
- C) USDA loans
- D) Good Neighbor Next Door program

97. A lender's right to call a loan due refers to:

- A) Setting interest rates
- B) Demanding full repayment under certain conditions
- C) Transferring loan servicing
- D) Modifying loan terms

98. The purpose of a Comparative Market Analysis (CMA) is to:

- A) Estimate property value
- B) Identify comparable properties
- C) Assess market conditions
- D) All of the above

99. Which factor is considered in automated underwriting systems?

- A) Credit score
- B) Debt-to-income ratio
- C) Loan-to-value ratio
- D) All of the above

100. The National Housing Act of 1934 created:

- A) Fannie Mae
- B) The FHA
- C) The VA loan program
- D) USDA loans

Practice Question 3 - General Mortgage Knowledge

- 1. B - Qualified Mortgage Explanation:** QM stands for Qualified Mortgage, which refers to loans that meet specific standards under the Ability-to-Repay rule designed to ensure borrowers can repay their loans.
- 2. C - 43% Explanation:** The QM rule generally limits debt-to-income ratios to 43%, though the GSE Patch allows higher ratios for loans eligible for purchase by Fannie Mae or Freddie Mac.
- 3. C - Interest-only payments Explanation:** QM loans cannot have interest-only payment periods, negative amortization, balloon payments (for most loans), or terms exceeding 30 years.
- 4. B - 3% of loan amount Explanation:** QM loans limit points and fees to 3% of the loan amount for loans of \$110,260 or more, with higher percentages allowed for smaller loans.
- 5. C - 3.5% Explanation:** FHA loans require a minimum down payment of 3.5% for borrowers with credit scores of 580 or higher.
- 6. B - Eligible veterans and service members Explanation:** VA loans are available to eligible veterans, active duty service members, National Guard members, reservists, and surviving spouses.
- 7. C - Rural and eligible suburban areas Explanation:** USDA loans are designed for rural and certain suburban areas that meet USDA eligibility requirements.
- 8. C - \$766,550 Explanation:** The 2024 conforming loan limit for most areas is \$766,550, with higher limits in designated high-cost areas.
- 9. C - 80% Explanation:** Conventional loans typically require PMI when the loan-to-value ratio exceeds 80% (down payment less than 20%).
- 10. C - Fixed rate for 5 years, then adjusts annually Explanation:** A 5/1 ARM has a fixed interest rate for the first 5 years, then adjusts annually for the remaining loan term.
- 11. C - Both payment amount and total interest paid Explanation:** 15-year mortgages have higher monthly payments but significantly lower total interest costs compared to 30-year mortgages.
- 12. B - Exceed conforming loan limits Explanation:** Jumbo loans are mortgages that exceed the conforming loan limits set by the FHFA for GSE purchase.
- 13. C - Department of Housing and Urban Development (HUD) Explanation:** FHA is part of HUD, and HUD provides insurance backing for FHA loans through the Mutual Mortgage Insurance Fund.

- 14. B** - Can be financed into the loan amount Explanation: VA funding fees can typically be financed into the loan amount, and disabled veterans may be exempt from these fees.
- 15. B** - Loan amount divided by property value Explanation: LTV is calculated by dividing the loan amount by the property's appraised value or purchase price, whichever is lower.
- 16. A** - Geographic and income eligibility requirements Explanation: USDA loans require properties to be in eligible rural areas and borrowers to meet income limits based on area median income.
- 17. B** - Pay only interest for a specified period Explanation: Interest-only mortgages allow borrowers to pay only the interest portion for a specified period, typically 5-10 years.
- 18. D** - Borrower's age Explanation: Borrower's age generally does not affect mortgage interest rates, while credit score, LTV, and loan term are significant pricing factors.
- 19. B** - All monthly debt obligations Explanation: DTI includes the proposed mortgage payment plus all other monthly debt obligations like credit cards, student loans, and other loans.
- 20. B** - Is required for the life of most loans Explanation: For most FHA loans originated after June 2013, mortgage insurance premiums are required for the entire loan term.
- 21. B** - Establish property market value Explanation: Appraisals provide independent estimates of property market value to ensure the collateral supports the loan amount.
- 22. B** - VA loans Explanation: VA loans typically offer the most competitive interest rates because they are backed by government guarantee and have no mortgage insurance.
- 23. C** - A large final payment Explanation: Balloon mortgages feature smaller payments during the loan term followed by a large final payment of the remaining balance.
- 24. C** - Down payment and closing costs minus credits Explanation: Cash-to-close includes down payment, closing costs, prepaid expenses, and escrow deposits, minus any seller or lender credits.
- 25. B** - Government-sponsored enterprises (GSEs) Explanation: Fannie Mae and Freddie Mac are GSEs - privately owned but federally chartered entities that purchase mortgages from lenders.
- 26. A** - Tax returns and pay stubs Explanation: Conventional loans typically require tax returns, pay stubs, W-2s, bank statements, and other documentation to verify income and assets.
- 27. C** - Properties worth less than the mortgage balance Explanation: "Underwater" or "upside down" refers to situations where the mortgage balance exceeds the property's current market value.
- 28. B** - The loan balance reaches 78% of original property value Explanation: PMI automatically terminates when the loan balance reaches 78% of the original property value, based on the original amortization schedule.

- 29. C** - VA and USDA loans Explanation: Both VA and USDA loan programs offer 100% financing with no down payment requirement for eligible borrowers.
- 30. B** - 28% of gross monthly income Explanation: The traditional housing expense ratio guideline is 28% of gross monthly income, though actual requirements vary by loan program.
- 31. A** - Federal Reserve policy and bond market conditions Explanation: Mortgage rates are primarily influenced by Federal Reserve monetary policy and bond market conditions, particularly 10-year Treasury yields.
- 32. D** - Moving expenses Explanation: Moving expenses are personal costs not related to the mortgage transaction, while title insurance, appraisal fees, and property taxes are typical closing costs.
- 33. B** - Interest rate and loan approval Explanation: Credit scores primarily affect the interest rate offered and likelihood of loan approval, with higher scores generally receiving better rates.
- 34. B** - Property taxes and homeowners insurance Explanation: Escrow accounts collect and pay property taxes and homeowners insurance on behalf of borrowers.
- 35. A** - APR includes additional costs and fees Explanation: APR includes the interest rate plus other finance charges, providing a more comprehensive measure of the loan's total cost.
- 36. C** - 5/1 ARM Explanation: A 5/1 ARM offers lower initial rates for borrowers planning to move or refinance before the rate adjustment period begins.
- 37. B** - Lower the interest rate Explanation: Discount points are prepaid interest that permanently lower the loan's interest rate, typically by 0.25% per point.
- 38. B** - Housing expense-to-income ratio Explanation: The front-end ratio compares housing expenses (PITI) to gross monthly income, typically limited to 28% for conventional loans.
- 39. A** - They exceed GSE purchase limits or guidelines Explanation: Non-conforming loans either exceed conforming loan limits (jumbo loans) or don't meet GSE underwriting guidelines.
- 40. B** - The lender from borrower default Explanation: Mortgage insurance protects lenders from financial losses if borrowers default on their loan obligations.
- 41. B** - Borrower's ability to repay Explanation: The Ability-to-Repay rule makes borrower repayment capacity the most important factor in loan approval decisions.
- 42. B** - Converts from construction financing to permanent mortgage Explanation: Construction-to-permanent loans provide construction financing that automatically converts to a permanent mortgage upon completion.
- 43. C** - Borrower's entitlement and county limits Explanation: VA loan amounts are determined by the borrower's available entitlement and VA county loan limits for the property location.

- 44. A** - 20% down payment on conventional loans Explanation: Conventional loans with 20% or more down payment (80% LTV or less) typically do not require PMI.
- 45. B** - 62 years or older Explanation: Reverse mortgages (HECMs) are available to borrowers aged 62 or older who meet other eligibility requirements.
- 46. C** - Title defects and ownership disputes Explanation: Title insurance protects against financial losses from title defects, liens, or ownership disputes that existed before closing.
- 47. B** - FHA loans Explanation: FHA loans generally have the most flexible credit requirements, accepting credit scores as low as 500-580 depending on down payment.
- 48. B** - Interest rate increases during processing Explanation: Rate locks protect borrowers from interest rate increases between application and closing, typically for 30-60 days.
- 49. B** - Where loans are bought and sold after origination Explanation: The secondary mortgage market is where originated loans are purchased by investors, providing liquidity to primary lenders.
- 50. B** - They include both upfront and annual components Explanation: FHA mortgage insurance includes both an upfront premium (1.75% of loan amount) and annual premiums.
- 51. B** - Length of time funds have been in borrower's accounts Explanation: Seasoning refers to how long funds have been in a borrower's accounts, with longer seasoning indicating more stable financial resources.
- 52. A** - VA loans Explanation: VA loans typically have higher funding fees compared to other government programs, though they offer other significant benefits.
- 53. B** - FHA loan with 3.5% down Explanation: FHA loans accept credit scores as low as 580 with 3.5% down, making them accessible to borrowers with lower credit scores.
- 54. B** - Lend in low and moderate-income communities Explanation: The Community Reinvestment Act encourages banks to meet credit needs in low and moderate-income communities they serve.
- 55. B** - Department of Agriculture Explanation: The USDA Rural Development program guarantees USDA loans to promote homeownership in rural areas.
- 56. B** - 0.5% to 1% of loan amount Explanation: Loan origination fees typically range from 0.5% to 1% of the loan amount, though they can vary by lender and loan type.
- 57. B** - New buyers to take over existing loan terms Explanation: Assumable loans allow qualified buyers to take over the seller's existing mortgage with its current terms and interest rate.
- 58. C** - Both the property and lender's interest Explanation: Homeowners insurance protects the property from damage and protects the lender's collateral interest in the property.

- 59. D** - Borrower's age Explanation: PMI premiums are based on credit score, LTV ratio, and sometimes property location, but not borrower's age.
- 60. B** - Has reduced documentation requirements Explanation: Streamline refinances offer reduced documentation and underwriting requirements for borrowers with good payment history.
- 61. B** - First mortgage, second mortgage, and down payment Explanation: 80/10/10 refers to an 80% first mortgage, 10% second mortgage, and 10% down payment structure to avoid PMI.
- 62. C** - Borrowed funds from credit cards Explanation: Down payment funds typically cannot come from borrowed sources like credit cards, as this increases the borrower's debt obligations.
- 63. C** - Annual Percentage Rate (APR) Explanation: TILA requires disclosure of the APR, which represents the true cost of credit including interest and certain fees.
- 64. B** - Temporarily reduce or pause payments Explanation: Forbearance allows borrowers experiencing temporary financial hardship to reduce or pause mortgage payments for a specified period.
- 65. C** - Interest-only ARM Explanation: Interest-only ARMs typically offer the lowest monthly payments since borrowers pay only interest without principal reduction.
- 66. B** - Are underwater on their mortgages Explanation: HARP was designed to help borrowers who were current on payments but underwater on their mortgages to refinance.
- 67. B** - Loan payment collection and account management Explanation: Mortgage servicing involves collecting payments, managing escrow accounts, and handling borrower communications after loan origination.
- 68. C** - Rates adjust based on market index movements Explanation: ARM rates adjust based on changes in specified market indices plus a fixed margin determined at loan origination.
- 69. C** - Marital status Explanation: ECOA prohibits discrimination based on marital status, along with race, color, religion, national origin, sex, age, and receipt of public assistance.
- 70. C** - Loan origination fee Explanation: The loan origination fee, typically 0.5-1% of the loan amount, is often the largest single closing cost for borrowers.
- 71. B** - Charges a fee for early loan payoff Explanation: Prepayment penalties charge borrowers a fee for paying off their mortgage early, typically within the first few years.
- 72. B** - Evaluate loan risk and borrower qualifications Explanation: Underwriting involves comprehensive evaluation of borrower creditworthiness and loan risk to make approval decisions.
- 73. A** - Fixed-rate mortgage Explanation: Fixed-rate mortgages provide complete protection against interest rate increases by maintaining the same rate throughout the loan term.

- 74. B** - Commercial real estate loans Explanation: Debt service coverage ratio measures property income against debt payments and is primarily used for income-producing commercial properties.
- 75. D** - Homeowners association dues Explanation: HOA dues are separate from mortgage payments, while principal, interest, and escrowed taxes are standard components of mortgage payments.
- 76. B** - Provide temporary financing between transactions Explanation: Bridge loans provide short-term financing to bridge the gap between property purchase and sale or permanent financing.
- 77. B** - Monthly rent payments Explanation: Section 8 Housing Choice Vouchers assist with monthly rent payments for eligible low-income families.
- 78. C** - Loan Estimate Explanation: The Loan Estimate provides borrowers with standardized information about loan terms, projected payments, and estimated closing costs.
- 79. C** - Material misrepresentation of information Explanation: Mortgage fraud involves intentional misrepresentation or omission of material information on loan applications or supporting documents.
- 80. B** - Interest rates Explanation: Interest rates have the most significant impact on purchasing power by affecting monthly payment amounts for given loan amounts.
- 81. B** - Identify property condition issues Explanation: Home inspections evaluate property condition to identify potential problems that might affect value or habitability.
- 82. C** - Most FHA loans originated after 2013 Explanation: FHA loans originated after June 3, 2013, generally require mortgage insurance for the entire loan term.
- 83. B** - Rental with option to purchase Explanation: Lease-purchase agreements allow tenants to rent property with an option to purchase it later, often with rent credits toward purchase.
- 84. C** - Disclosure of settlement costs Explanation: RESPA requires disclosure of settlement service costs and prohibits certain practices like kickbacks between service providers.
- 85. B** - Kept by the originating lender Explanation: Portfolio loans are kept by the originating lender rather than sold in the secondary market, allowing more flexible underwriting.
- 86. C** - 30-60 days Explanation: Standard rate locks typically last 30-60 days, providing protection during normal loan processing timeframes.
- 87. C** - Underserved communities Explanation: CDFI programs focus on providing financial services to underserved communities and populations with limited access to credit.
- 88. B** - Interest rate caps Explanation: ARMs typically include interest rate caps that limit how much rates can increase per adjustment period and over the loan's lifetime.

- 89. B** - Identify property boundaries and easements Explanation: Property surveys establish exact property boundaries, identify easements, and reveal potential encroachment issues.
- 90. C** - Conventional loans Explanation: Conventional loans often have the fastest approval process due to automated underwriting systems and streamlined documentation.
- 91. B** - Liquid assets remaining after closing Explanation: Reserves refer to liquid assets (typically 2-6 months of mortgage payments) remaining after closing to provide financial cushion.
- 92. C** - Fannie Mae and Freddie Mac Explanation: FHFA serves as the regulator and conservator for Fannie Mae and Freddie Mac (the GSEs).
- 93. B** - Deductions are subject to limits and requirements Explanation: Mortgage interest deductions are subject to limits on loan amounts and specific requirements under tax law.
- 94. B** - The home may be personal property rather than real estate Explanation: Manufactured homes may be classified as personal property rather than real estate, affecting financing options and terms.
- 95. B** - Inform borrowers about MI costs and cancellation rights Explanation: Mortgage insurance disclosures inform borrowers about costs, payment requirements, and rights to cancel when eligible.
- 96. D** - Good Neighbor Next Door program Explanation: The Good Neighbor Next Door program offers discounts to teachers, firefighters, EMTs, and law enforcement officers in revitalization areas.
- 97. B** - Demanding full repayment under certain conditions Explanation: Acceleration clauses allow lenders to call loans due immediately if borrowers violate loan terms, such as missing payments.
- 98. D** - All of the above Explanation: CMAs estimate property value by analyzing comparable properties and assessing current market conditions.
- 99. D** - All of the above Explanation: Automated underwriting systems analyze credit scores, DTI ratios, LTV ratios, and other factors to make loan decisions.
- 100. B** - The FHA Explanation: The National Housing Act of 1934 created the Federal Housing Administration to stabilize the housing market during the Great Depression.

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. The Loan Estimate must be delivered to the borrower within how many business days of receiving a complete application?
 - A) 1 business day
 - B) 3 business days
 - C) 5 business days
 - D) 7 business days

2. A complete application under TRID includes how many pieces of information?
 - A) 4
 - B) 5
 - C) 6
 - D) 8

3. Which of the following is NOT required to constitute a complete application?
 - A) Applicant's name
 - B) Monthly income
 - C) Social Security number
 - D) Employment history

4. The Closing Disclosure must be provided to the borrower at least how many business days before consummation?
 - A) 1 business day
 - B) 3 business days
 - C) 5 business days

D) 7 business days

5. When evaluating a borrower's income, lenders typically require documentation for the most recent:

A) 1 month

B) 2 months

C) 6 months

D) 12 months

6. Self-employed borrowers typically must provide how many years of tax returns?

A) 1 year

B) 2 years

C) 3 years

D) 5 years

7. For employed borrowers, acceptable income documentation includes:

A) Pay stubs and W-2 forms

B) Bank statements only

C) Tax returns only

D) Employment contracts only

8. The debt-to-income ratio calculation includes which of the following in the monthly debt obligations?

A) Utilities and groceries

B) Life insurance premiums

C) Student loan payments

D) Medical expenses

9. When calculating housing ratio, which expenses are included?

A) Principal and interest only

B) Principal, interest, taxes, and insurance (PITI)

C) Property taxes only

D) Homeowners insurance only

10. Asset verification typically requires how many months of bank statements?

A) 1 month

B) 2 months

C) 3 months

D) 6 months

11. Large deposits in bank accounts typically require explanation if they exceed what percentage of monthly income?

A) 25%

B) 50%

C) 75%

D) 100%

12. Gift funds for down payment must be accompanied by:

A) Gift letter only

B) Donor's bank statement only

C) Gift letter and evidence of transfer

D) Proof of donor's income

13. The maximum debt-to-income ratio for QM loans is generally:

A) 36%

B) 41%

C) 43%

D) 45%

14. Credit scores are typically pulled from how many credit repositories?

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

15. When multiple borrowers apply together, lenders typically use:

- A) The highest credit score
- B) The lowest credit score
- C) The average of all scores
- D) The primary borrower's score only

16. An appraisal is typically ordered after:

- A) Initial application
- B) Credit approval
- C) Income verification
- D) Contract acceptance (for purchases)

17. The appraisal is valid for how many months for most loan types?

- A) 3 months
- B) 4 months
- C) 6 months
- D) 12 months

18. Automated underwriting systems consider which factors?

- A) Credit score only
- B) Income and debt only
- C) Credit, income, assets, and collateral
- D) Employment history only

19. A loan application is typically processed in which order?

- A) Credit, income, assets, appraisal
- B) Application, credit, verification, appraisal, underwriting
- C) Appraisal, credit, income, assets
- D) Income, credit, assets, employment

20. Employment verification is typically valid for how many days?

- A) 10 days
- B) 30 days
- C) 60 days
- D) 90 days

21. When a borrower changes jobs during the loan process, the lender must:

- A) Deny the application immediately
- B) Re-verify employment and income
- C) Restart the entire application
- D) Charge additional fees

22. Conditional approval means:

- A) The loan is fully approved
- B) The loan is approved subject to meeting specific conditions
- C) The loan is denied
- D) More documentation is needed

23. Final loan approval cannot be given until:

- A) All conditions are satisfied
- B) The borrower signs documents

- C) Funds are disbursed
- D) The property is recorded

24. The Clear to Close (CTC) status indicates:

- A) Conditional approval
- B) All conditions satisfied and ready for closing
- C) Loan documents are prepared
- D) Funds are available

25. A Rate Lock Agreement protects the borrower from:

- A) Property value decreases
- B) Interest rate increases
- C) Closing cost increases
- D) Credit score changes

26. Standard rate lock periods are typically:

- A) 15-30 days
- B) 30-60 days
- C) 60-90 days
- D) 90-120 days

27. If loan terms change significantly during processing, what may be required?

- A) New application
- B) Additional fees
- C) New Loan Estimate
- D) Credit re-pull

28. The initial escrow deposit at closing typically equals:

- A) 1 month of payments
- B) 2 months of payments
- C) 3 months of payments
- D) 6 months of payments

29. Title insurance protects against:

- A) Property damage
- B) Title defects
- C) Interest rate changes
- D) Borrower default

30. The HUD-1 Settlement Statement has been replaced by:

- A) Loan Estimate
- B) Closing Disclosure
- C) Truth in Lending Disclosure
- D) Good Faith Estimate

31. Loan documents typically include:

- A) Promissory note only
- B) Deed of trust only
- C) Promissory note and deed of trust/mortgage
- D) Purchase agreement only

32. The promissory note establishes:

- A) Property ownership
- B) The borrower's promise to repay
- C) Property boundaries
- D) Insurance requirements

33. The deed of trust/mortgage creates:

- A) Property ownership
- B) A lien against the property
- C) Insurance requirements
- D) Payment obligations

34. Loan funding typically occurs:

- A) At application
- B) At approval
- C) After document signing and conditions are met
- D) 30 days after closing

35. The Right of Rescission applies to:

- A) All mortgage loans
- B) Purchase mortgages only
- C) Refinances and home equity loans on primary residences
- D) Investment property loans only

36. The rescission period lasts for:

- A) 1 business day
- B) 3 business days
- C) 5 business days
- D) 7 business days

37. If a borrower exercises the right of rescission:

- A) They forfeit all fees paid
- B) The lender must return all money paid

- C) The loan rate increases
- D) The closing is delayed 30 days

38. Post-closing quality control reviews typically occur within:

- A) 30 days
- B) 60 days
- C) 90 days
- D) 120 days

39. Loan delivery to investors typically occurs within:

- A) 15 days of closing
- B) 30 days of closing
- C) 60 days of closing
- D) 90 days of closing

40. When calculating monthly income for hourly employees, lenders typically use:

- A) $\text{Current hourly rate} \times 40 \text{ hours} \times 52 \text{ weeks} \div 12$
- B) $\text{Year-to-date income} \div \text{months worked}$
- C) Both A and B for comparison
- D) Base salary only

41. Overtime income is typically calculated using:

- A) Current rate only
- B) 2-year average
- C) Year-to-date only
- D) Most recent month

42. For commission income, lenders typically average:

- A) 6 months
- B) 1 year
- C) 2 years
- D) 3 years

43. Bonus income is generally:

- A) Always counted at full amount
- B) Averaged over 2 years if consistent
- C) Never counted
- D) Counted only if guaranteed

44. Social Security income is:

- A) Never acceptable
- B) Acceptable if continuing for 3+ years
- C) Only acceptable for retirement loans
- D) Requires special documentation

45. Child support income can be counted if:

- A) It's court-ordered
- B) It has been received consistently
- C) It will continue for at least 3 years
- D) All of the above

46. Rental income from investment properties is typically calculated at:

- A) 100% of rental amount
- B) 75% of rental amount
- C) 50% of rental amount
- D) 25% of rental amount

47. When verifying assets, lenders look for:

- A) Account balances only
- B) Source of funds and seasoning
- C) Account types only
- D) Bank names only

48. Earnest money deposits:

- A) Count toward cash to close
- B) Must be verified as deposited
- C) Require documentation
- D) All of the above

49. Retirement account funds can be used for down payment if:

- A) The borrower is over 59½
- B) Properly documented with withdrawal procedures
- C) Account statements are provided
- D) All of the above

50. Stock and bond accounts require:

- A) Account statements only
- B) Recent statements and market value verification
- C) Broker verification only
- D) No documentation

51. The credit report shows:

- A) Payment history only
- B) Current balances only

- C) Payment history, balances, and credit inquiries
- D) Income information

52. Recent credit inquiries may indicate:

- A) Good credit management
- B) Potential new debt
- C) Identity theft
- D) All of the above

53. Collections and charge-offs generally:

- A) Require payment before closing
- B) Must be explained but may not require payment
- C) Automatically disqualify borrowers
- D) Are ignored if over 2 years old

54. Student loans in deferment are typically calculated at:

- A) \$0 monthly payment
- B) 1% of outstanding balance
- C) Scheduled payment amount
- D) Minimum payment shown on credit report

55. The appraisal report must indicate:

- A) Property value only
- B) Property condition only
- C) Property value and condition
- D) Neighborhood information only

56. If the appraised value is lower than the purchase price:

- A) The loan is automatically denied
- B) The borrower may need additional down payment
- C) The seller must reduce the price
- D) A new appraisal is required

57. Appraisal review may be required when:

- A) The value seems high for the area
- B) The property has unique features
- C) There are condition issues
- D) All of the above

58. Underwriting guidelines are established by:

- A) Individual loan officers
- B) Loan investors and agencies
- C) Real estate agents
- D) Appraisers

59. Compensating factors may include:

- A) High credit scores
- B) Substantial assets
- C) Stable employment
- D) All of the above

60. Loan-to-value ratios are calculated using:

- A) Sales price only
- B) Appraised value only
- C) Lower of sales price or appraised value
- D) Higher of sales price or appraised value

61. Private mortgage insurance is typically required when LTV exceeds:

- A) 75%
- B) 78%
- C) 80%
- D) 85%

62. PMI can typically be removed when:

- A) Requested by borrower
- B) LTV reaches 78% through payments or appreciation
- C) 2 years have passed
- D) Borrower refinances

63. Flood insurance is required when the property is located in:

- A) Any flood zone
- B) Special Flood Hazard Areas (SFHA)
- C) Coastal areas only
- D) All waterfront properties

64. Homeowners insurance must be in effect:

- A) Before closing
- B) At closing
- C) Within 30 days of closing
- D) Within 60 days of closing

65. The insurance binder provides:

- A) Temporary coverage until the policy is issued
- B) Permanent coverage

- C) Proof of application only
- D) Rate quotes only

66. Escrow account analysis is performed:

- A) Monthly
- B) Quarterly
- C) Annually
- D) Every 2 years

67. Escrow shortages result in:

- A) Loan default
- B) Increased monthly payments or lump sum payment
- C) Automatic refinancing
- D) Property tax penalties

68. Property tax assessments are typically based on:

- A) Purchase price
- B) Assessed value by local authorities
- C) Appraised value
- D) Market value

69. The closing agent is responsible for:

- A) Loan approval
- B) Document preparation and recording
- C) Property inspection
- D) Insurance verification

70. The settlement statement shows:

- A) Loan terms only
- B) All transaction costs and credits
- C) Property information only
- D) Insurance details only

71. Prorations at closing typically include:

- A) Property taxes
- B) HOA fees
- C) Interest
- D) All of the above

72. Recording the deed:

- A) Transfers ownership
- B) Creates public record of ownership
- C) Establishes the mortgage lien
- D) All of the above

73. The mortgage lien is established by recording:

- A) The promissory note
- B) The deed of trust/mortgage
- C) The settlement statement
- D) The insurance policy

74. Loan servicing transfer notices must be sent:

- A) 15 days before transfer
- B) 30 days before transfer
- C) At the time of transfer
- D) After the transfer

75. Borrowers have the right to:

- A) Choose their own service providers
- B) Shop for settlement services
- C) Review documents before closing
- D) All of the above

76. Changes to the Closing Disclosure may require:

- A) New 3-day waiting period
- B) Borrower acknowledgment only
- C) No additional action
- D) Loan re-approval

77. The initial interest rate on an ARM is typically:

- A) Higher than fixed rates
- B) Lower than fixed rates
- C) The same as fixed rates
- D) Variable from day one

78. ARM adjustment caps limit:

- A) How often rates can change
- B) How much rates can change per period
- C) The maximum lifetime rate
- D) Both B and C

79. The margin on an ARM:

- A) Changes with market conditions
- B) Remains constant throughout the loan

- C) Is determined at each adjustment
- D) Equals the index rate

80. Construction loans typically:

- A) Have fixed rates throughout construction
- B) Require interest-only payments during construction
- C) Include the land purchase price
- D) All of the above

81. Bridge loans are used to:

- A) Finance property improvements
- B) Provide temporary financing between purchase and sale
- C) Consolidate existing debt
- D) Purchase investment properties

82. Rehabilitation loans combine:

- A) Purchase price and renovation costs
- B) Multiple properties
- C) First and second mortgages
- D) Construction and permanent financing

83. When a loan application is withdrawn:

- A) All fees are refunded
- B) Some fees may be non-refundable
- C) The borrower is blacklisted
- D) Credit is not affected

84. Incomplete applications result in:

- A) Automatic denial
- B) File closure after specified period
- C) Continued processing indefinitely
- D) Transfer to another lender

85. If a borrower fails to provide required documentation:

- A) The loan is automatically approved
- B) The application may be withdrawn or denied
- C) The lender waives requirements
- D) Processing continues without documentation

86. Lock extension fees are typically charged when:

- A) Interest rates increase
- B) The original lock period expires
- C) Documentation is incomplete
- D) The borrower requests it

87. Loan modifications are typically considered for borrowers who are:

- A) Current on payments but facing hardship
- B) Already in default
- C) Seeking lower rates
- D) All of the above

88. Short sales require:

- A) Lender approval of reduced payoff
- B) Borrower financial hardship
- C) Property value less than mortgage balance
- D) All of the above

89. The loan estimate tolerance rules limit increases in:

- A) All closing costs equally
- B) Specific categories of costs differently
- C) Interest rates only
- D) Property taxes only

90. Zero tolerance items include:

- A) Transfer taxes
- B) Lender fees
- C) Services borrower cannot shop for
- D) All of the above

91. 10% cumulative tolerance applies to:

- A) Recording fees
- B) Third-party services borrower can shop for
- C) Title insurance when borrower selects provider
- D) All of the above

92. Quality control reviews examine:

- A) Loan file completeness
- B) Compliance with guidelines
- C) Documentation accuracy
- D) All of the above

93. Deficiency findings in QC reviews may result in:

- A) Loan repurchase demands
- B) Additional documentation requirements

- C) Lender penalties
- D) All of the above

94. Loan delivery requirements include:

- A) Complete loan files
- B) Compliance certifications
- C) Quality control reviews
- D) All of the above

95. Electronic loan files must maintain:

- A) Original document integrity
- B) Proper organization
- C) Security protocols
- D) All of the above

96. Borrower privacy requirements mandate:

- A) Limiting access to loan information
- B) Secure document handling
- C) Proper disposal of sensitive information
- D) All of the above

97. When a loan is sold to an investor:

- A) Borrower payments change immediately
- B) Loan terms may be modified
- C) Servicing may transfer
- D) Interest rates are adjusted

98. Pre-closing audit procedures verify:

- A) Document completeness
- B) Calculation accuracy
- C) Compliance requirements
- D) All of the above

99. Final quality control before funding includes:

- A) Document review
- B) Condition verification
- C) Authorization confirmations
- D) All of the above

100. Post-closing follow-up may include:

- A) Recording confirmations
- B) Insurance policy delivery
- C) Borrower satisfaction surveys
- D) All of the above

Practice Question 4 - Mortgage Loan Origination Activities

- 1. B - 3 business days** Explanation: TRID requires the Loan Estimate to be delivered within 3 business days of receiving a complete application, defined as receiving six pieces of required information.
- 2. C - 6** Explanation: A complete application under TRID consists of six pieces of information: applicant name, monthly income, SSN, property address, estimated property value, and mortgage loan amount.
- 3. D - Employment history** Explanation: Employment history is not required for a complete application under TRID, though it will be needed later for underwriting and verification.
- 4. B - 3 business days** Explanation: The Closing Disclosure must be provided at least 3 business days before consummation to give borrowers time to review final loan terms.
- 5. B - 2 months** Explanation: Lenders typically require the most recent 2 months of pay stubs along with year-to-date earnings for employed borrowers.
- 6. B - 2 years** Explanation: Self-employed borrowers typically must provide 2 years of personal and business tax returns to establish income history and trends.
- 7. A - Pay stubs and W-2 forms** Explanation: Standard income documentation for employed borrowers includes recent pay stubs, W-2 forms, and sometimes employment verification.
- 8. C - Student loan payments** Explanation: DTI calculations include all recurring monthly debt obligations such as credit cards, student loans, auto loans, and other installment debts.
- 9. B - Principal, interest, taxes, and insurance (PITI)** Explanation: Housing ratio includes principal, interest, property taxes, homeowners insurance, and mortgage insurance if applicable.
- 10. B - 2 months** Explanation: Asset verification typically requires 2 months of bank statements to verify account balances and transaction history.
- 11. B - 50%** Explanation: Large deposits exceeding 50% of monthly income typically require explanation and documentation of their source.
- 12. C - Gift letter and evidence of transfer** Explanation: Gift funds require a gift letter from the donor and evidence that the funds have been transferred to the borrower's account.
- 13. C - 43%** Explanation: The QM rule generally limits debt-to-income ratios to 43%, though the GSE Patch allows higher ratios for eligible loans.

- 14. C - 3** Explanation: Credit scores are typically obtained from all three major credit repositories: Experian, Equifax, and TransUnion.
- 15. B - The lowest credit score** Explanation: For multiple borrowers, lenders typically use the lowest middle credit score among all applicants for qualification purposes.
- 16. D - Contract acceptance (for purchases)** Explanation: Appraisals are typically ordered after contract acceptance for purchases or after application for refinances to avoid unnecessary costs.
- 17. B - 4 months** Explanation: Appraisals are typically valid for 4 months (120 days) for most loan types, though some programs may have different requirements.
- 18. C - Credit, income, assets, and collateral** Explanation: Automated underwriting systems analyze all major risk factors including credit, income, assets, and collateral (property value).
- 19. B - Application, credit, verification, appraisal, underwriting** Explanation: The typical loan processing sequence follows application, credit analysis, income/asset verification, appraisal, and final underwriting.
- 20. A - 10 days** Explanation: Employment verification is typically valid for 10 days from the date of verification, requiring updates if closing is delayed.
- 21. B - Re-verify employment and income** Explanation: Job changes during processing require re-verification of employment and income to ensure continued qualification.
- 22. B - The loan is approved subject to meeting specific conditions** Explanation: Conditional approval means the loan is approved pending satisfaction of specific conditions such as additional documentation or property requirements.
- 23. A - All conditions are satisfied** Explanation: Final loan approval cannot be given until all underwriting conditions have been satisfied and documented.
- 24. B - All conditions satisfied and ready for closing** Explanation: Clear to Close (CTC) status indicates all underwriting conditions are satisfied and the loan is ready for closing.
- 25. B - Interest rate increases** Explanation: Rate lock agreements protect borrowers from interest rate increases during the loan processing period.
- 26. B - 30-60 days** Explanation: Standard rate lock periods typically range from 30-60 days, with extensions available for longer processing times.
- 27. C - New Loan Estimate** Explanation: Significant changes to loan terms during processing may require a new Loan Estimate and potentially restart waiting periods.
- 28. B - 2 months of payments** Explanation: The initial escrow deposit typically equals approximately 2 months of property tax and insurance payments.

- 29. B** - Title defects Explanation: Title insurance protects against financial losses due to title defects, liens, or ownership disputes.
- 30. B** - Closing Disclosure Explanation: TRID replaced the HUD-1 Settlement Statement with the Closing Disclosure for most mortgage transactions.
- 31. C** - Promissory note and deed of trust/mortgage Explanation: Essential loan documents include the promissory note (promise to pay) and deed of trust or mortgage (security instrument).
- 32. B** - The borrower's promise to repay Explanation: The promissory note is the borrower's written promise to repay the loan according to specified terms.
- 33. B** - A lien against the property Explanation: The deed of trust or mortgage creates a lien against the property, securing the lender's interest.
- 34. C** - After document signing and conditions are met Explanation: Loan funding occurs after all documents are signed, conditions are satisfied, and the lender authorizes fund disbursement.
- 35. C** - Refinances and home equity loans on primary residences Explanation: The right of rescission applies to refinances and home equity loans secured by the borrower's primary residence.
- 36. B** - 3 business days Explanation: Borrowers have 3 business days to exercise the right of rescission after loan consummation.
- 37. B** - The lender must return all money paid Explanation: If rescission is exercised, the lender must return all money paid by the borrower and release the security interest.
- 38. C** - 90 days Explanation: Post-closing quality control reviews typically occur within 90 days of loan closing to ensure file completeness and compliance.
- 39. C** - 60 days of closing Explanation: Loan delivery to investors typically occurs within 60 days of closing, depending on investor requirements.
- 40. C** - Both A and B for comparison Explanation: For hourly employees, lenders calculate income using both the hourly rate formula and year-to-date averaging for comparison.
- 41. B** - 2-year average Explanation: Overtime income is typically calculated using a 2-year average if it's been consistent and likely to continue.
- 42. C** - 2 years Explanation: Commission income is generally averaged over 2 years to account for variability and establish earning trends.
- 43. B** - Averaged over 2 years if consistent Explanation: Bonus income can be counted if it's been received consistently and is averaged over 2 years.

- 44. B** - Acceptable if continuing for 3+ years Explanation: Social Security income is acceptable if it will continue for at least 3 years and is properly documented.
- 45. D** - All of the above Explanation: Child support can be counted if it's court-ordered, consistently received, and will continue for at least 3 years.
- 46. B** - 75% of rental amount Explanation: Rental income from investment properties is typically calculated at 75% of the gross rental amount to account for vacancy and maintenance.
- 47. B** - Source of funds and seasoning Explanation: Asset verification examines not just balances but also the source of funds and how long they've been in accounts (seasoning).
- 48. D** - All of the above Explanation: Earnest money counts toward cash to close, must be verified as deposited, and requires proper documentation.
- 49. D** - All of the above Explanation: Retirement funds can be used if properly documented, withdrawal procedures are understood, and tax implications are considered.
- 50. B** - Recent statements and market value verification Explanation: Stock and bond accounts require recent statements and verification of current market values due to volatility.
- 51. C** - Payment history, balances, and credit inquiries Explanation: Credit reports show comprehensive credit information including payment history, current balances, and recent inquiries.
- 52. B** - Potential new debt Explanation: Recent credit inquiries may indicate the borrower is seeking additional credit, which could affect qualification.
- 53. B** - Must be explained but may not require payment Explanation: Collections and charge-offs require explanation but don't always require payment before closing, depending on circumstances.
- 54. B** - 1% of outstanding balance Explanation: Student loans in deferment are typically calculated at 1% of the outstanding balance for DTI purposes.
- 55. C** - Property value and condition Explanation: Appraisal reports must indicate both the property's market value and its physical condition.
- 56. B** - The borrower may need additional down payment Explanation: If appraised value is less than purchase price, the borrower typically needs additional down payment since loans are based on the lower value.
- 57. D** - All of the above Explanation: Appraisal review may be required for high values, unique properties, or condition issues to ensure accuracy.
- 58. B** - Loan investors and agencies Explanation: Underwriting guidelines are established by loan investors (GSEs, FHA, VA, etc.) who purchase or insure the loans.

- 59. D** - All of the above Explanation: Compensating factors include high credit scores, substantial assets, stable employment, and other risk-mitigating factors.
- 60. C** - Lower of sales price or appraised value Explanation: LTV ratios are calculated using the lower of the sales price or appraised value to protect lender interests.
- 61. C** - 80% Explanation: Private mortgage insurance is typically required when the loan-to-value ratio exceeds 80% (less than 20% down payment).
- 62. B** - LTV reaches 78% through payments or appreciation Explanation: PMI can be removed when the LTV reaches 78% through principal payments or property appreciation.
- 63. B** - Special Flood Hazard Areas (SFHA) Explanation: Flood insurance is federally required when properties are located in Special Flood Hazard Areas.
- 64. B** - At closing Explanation: Homeowners insurance must be in effect at the time of closing to protect the lender's collateral interest.
- 65. A** - Temporary coverage until the policy is issued Explanation: An insurance binder provides temporary coverage while the permanent insurance policy is being processed.
- 66. C** - Annually Explanation: Escrow account analysis is performed annually to ensure adequate funds for tax and insurance payments.
- 67. B** - Increased monthly payments or lump sum payment Explanation: Escrow shortages typically result in increased monthly payments spread over 12 months or a lump sum payment option.
- 68. B** - Assessed value by local authorities Explanation: Property taxes are based on assessed values determined by local tax authorities, not necessarily market value.
- 69. B** - Document preparation and recording Explanation: Closing agents are responsible for preparing closing documents, facilitating signing, and recording documents.
- 70. B** - All transaction costs and credits Explanation: The settlement statement itemizes all costs, credits, and financial aspects of the transaction.
- 71. D** - All of the above Explanation: Prorations typically include property taxes, HOA fees, interest, and other recurring expenses.
- 72. B** - Creates public record of ownership Explanation: Recording the deed creates a public record of the ownership transfer and establishes legal notice.
- 73. B** - The deed of trust/mortgage Explanation: The mortgage lien is established by recording the deed of trust or mortgage document, not the promissory note.

- 74. A** - 15 days before transfer Explanation: RESPA requires loan servicing transfer notices to be sent at least 15 days before the effective transfer date.
- 75. D** - All of the above Explanation: Borrowers have rights to choose service providers, shop for services, and review documents before closing.
- 76. A** - New 3-day waiting period Explanation: Material changes to the Closing Disclosure may trigger a new 3-day waiting period before consummation.
- 77. B** - Lower than fixed rates Explanation: ARM initial rates are typically lower than fixed rates to compensate borrowers for accepting interest rate risk.
- 78. D** - Both B and C Explanation: ARM caps limit both periodic adjustments (how much rates can change per period) and lifetime maximum rates.
- 79. B** - Remains constant throughout the loan Explanation: The margin on an ARM remains constant throughout the loan term; it's added to the index to determine the interest rate.
- 80. B** - Require interest-only payments during construction Explanation: Construction loans typically require interest-only payments during the construction phase.
- 81. B** - Provide temporary financing between purchase and sale Explanation: Bridge loans provide short-term financing to bridge the gap between buying a new home and selling the current one.
- 82. A** - Purchase price and renovation costs Explanation: Rehabilitation loans (like FHA 203k) combine the purchase price and renovation costs into a single mortgage.
- 83. B** - Some fees may be non-refundable Explanation: When applications are withdrawn, some fees (like appraisals or credit reports) may be non-refundable.
- 84. B** - File closure after specified period Explanation: Incomplete applications are typically closed after a specified period if required documentation isn't provided.
- 85. B** - The application may be withdrawn or denied Explanation: Failure to provide required documentation can result in application withdrawal or denial.
- 86. B** - The original lock period expires Explanation: Lock extension fees are charged when borrowers need to extend beyond the original rate lock period.
- 87. D** - All of the above Explanation: Loan modifications may be considered for borrowers facing hardship, already in default, or seeking rate reductions.
- 88. D** - All of the above Explanation: Short sales require lender approval of reduced payoff, borrower hardship, and property value less than mortgage balance.

- 89. B** - Specific categories of costs differently Explanation: TRID tolerance rules apply different standards to different categories of closing costs.
- 90. D** - All of the above Explanation: Zero tolerance items include transfer taxes, lender fees, and services borrowers cannot shop for.
- 91. D** - All of the above Explanation: 10% cumulative tolerance applies to recording fees and third-party services borrowers can shop for.
- 92. D** - All of the above Explanation: Quality control reviews examine file completeness, guideline compliance, and documentation accuracy.
- 93. D** - All of the above Explanation: QC deficiencies can result in repurchase demands, additional documentation requirements, and lender penalties.
- 94. D** - All of the above Explanation: Loan delivery requires complete files, compliance certifications, and quality control reviews.
- 95. D** - All of the above Explanation: Electronic loan files must maintain document integrity, proper organization, and security protocols.
- 96. D** - All of the above Explanation: Privacy requirements include limiting access, secure handling, and proper disposal of sensitive information.
- 97. C** - Servicing may transfer Explanation: When loans are sold, servicing rights may transfer to the new investor or a servicing company.
- 98. D** - All of the above Explanation: Pre-closing audits verify document completeness, calculation accuracy, and compliance requirements.
- 99. D** - All of the above Explanation: Final quality control includes document review, condition verification, and authorization confirmations.
- 100. D** - All of the above Explanation: Post-closing follow-up may include recording confirmations, insurance delivery, and satisfaction surveys.

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. The primary purpose of ethical standards in mortgage lending is to:

- A) Increase lender profits
- B) Protect consumers and maintain market integrity
- C) Reduce regulatory oversight
- D) Simplify loan processing

2. A mortgage loan originator's fiduciary duty means they must:

- A) Always recommend the highest-priced loan
- B) Act in the borrower's best interest
- C) Maximize their own compensation
- D) Follow company policies only

3. When a borrower qualifies for multiple loan products, an MLO should:

- A) Recommend the product with the highest compensation
- B) Present options and explain the benefits and risks of each
- C) Choose the product with the lowest rate only
- D) Let the borrower decide without guidance

4. It would be unethical for an MLO to:

- A) Explain different loan options to borrowers
- B) Recommend a lower-cost loan over a higher-cost option
- C) Steer a borrower to a higher-priced loan for additional compensation
- D) Provide honest advice about loan terms

5. An MLO discovers that a borrower has inflated their income on the application. The MLO should:

- A) Ignore the discrepancy to ensure loan approval
- B) Correct the application with accurate information
- C) Report the borrower to law enforcement immediately
- D) Increase the loan amount since income is higher

6. When discussing loan terms with borrowers, MLOs must:

- A) Use technical jargon to sound professional
- B) Provide clear, understandable explanations
- C) Focus only on monthly payment amounts
- D) Avoid discussing potential risks

7. A borrower asks an MLO to falsify employment information. The MLO should:

- A) Comply to help the borrower qualify
- B) Refuse and explain the legal consequences
- C) Suggest the borrower find another lender
- D) Modify the information slightly to help

8. Conflicts of interest occur when an MLO:

- A) Works standard business hours
- B) Has personal interests that may interfere with professional duties
- C) Follows company policies
- D) Provides excellent customer service

9. An MLO should disclose their compensation arrangement when:

- A) The borrower specifically asks
- B) Required by law or regulation

- C) The loan amount exceeds \$500,000
- D) It's higher than industry standards

10. When a borrower cannot afford the loan they want, an ethical MLO should:

- A) Find ways to make the numbers work anyway
- B) Recommend a smaller loan amount or different property
- C) Suggest the borrower get additional part-time work
- D) Process the application without changes

11. Fair lending laws prohibit discrimination based on:

- A) Credit history
- B) Income level
- C) Race and ethnicity
- D) Employment status

12. An MLO receives a referral from a real estate agent who requests favorable loan terms. The MLO should:

- A) Provide standard underwriting and terms based on borrower qualifications
- B) Offer special terms to maintain the referral relationship
- C) Charge the borrower additional fees to compensate the agent
- D) Guarantee loan approval regardless of qualification

13. It is ethical for an MLO to:

- A) Recommend loans based solely on commission levels
- B) Provide honest assessments of borrower qualification likelihood
- C) Promise loan approval before reviewing the application
- D) Suggest borrowers misstate information to qualify

14. When reviewing a borrower's financial information, an MLO notices gambling debts. The MLO should:

- A) Ignore the debts if not on the credit report
- B) Include the debts in qualification analysis
- C) Report the borrower to gambling addiction services
- D) Recommend the borrower hide the information

15. Professional competence in mortgage lending requires MLOs to:

- A) Memorize all regulations perfectly
- B) Maintain current knowledge of laws and industry practices
- C) Focus only on sales techniques
- D) Avoid continuing education requirements

16. An MLO should refuse to originate a loan when:

- A) The borrower has average credit
- B) The property is in a declining neighborhood
- C) The borrower clearly cannot afford the payments
- D) Interest rates are rising

17. Churning refers to:

- A) Processing applications quickly
- B) Repeatedly refinancing borrowers for fees without benefit
- C) Working with multiple lenders
- D) Reviewing loan applications thoroughly

18. When an MLO makes an error on loan documents, they should:

- A) Hope no one notices the mistake
- B) Correct the error promptly and notify affected parties
- C) Wait until closing to address the issue

D) Blame the error on someone else

19. Predatory lending practices include:

A) Offering competitive interest rates

B) Providing clear loan disclosures

C) Making loans without regard to ability to repay

D) Explaining loan terms thoroughly

20. An MLO's duty of confidentiality means they should:

A) Discuss borrower information with anyone who asks

B) Share information only with authorized parties for legitimate business purposes

C) Post borrower details on social media

D) Use borrower information for personal gain

21. When a borrower has bad credit due to medical expenses, an ethical MLO should:

A) Automatically deny the application

B) Consider the circumstances and explore appropriate loan options

C) Charge higher fees due to the credit issues

D) Suggest the borrower hide the medical debts

22. Yield spread premiums become problematic when they:

A) Are disclosed to borrowers

B) Create incentives to steer borrowers to higher-cost loans

C) Are based on loan amount

D) Are paid by lenders to brokers

23. An MLO learns that a property appraisal seems inflated. The MLO should:

A) Accept the appraisal to expedite closing

B) Question the appraisal and seek additional review if necessary

- C) Use the high value to justify a larger loan
- D) Keep the information confidential from the borrower

24. Professional boundaries require MLOs to:

- A) Become personally involved in borrowers' financial decisions
- B) Maintain appropriate professional relationships with clients
- C) Socialize regularly with borrowers
- D) Make personal loans to clients

25. When advertising mortgage services, MLOs must:

- A) Exaggerate benefits to attract customers
- B) Use testimonials from satisfied customers only
- C) Provide truthful and non-misleading information
- D) Focus on emotional appeals rather than facts

26. An MLO discovers that a borrower is a family member. The MLO should:

- A) Provide special terms and expedited processing
- B) Disclose the relationship and ensure fair treatment
- C) Refuse to work with family members
- D) Keep the relationship secret

27. Bait-and-switch tactics involve:

- A) Advertising attractive terms then switching to less favorable terms
- B) Providing multiple loan options to borrowers
- C) Explaining loan terms clearly
- D) Offering competitive interest rates

28. When a borrower wants to purchase more house than they can afford, an MLO should:

- A) Help them qualify for the maximum loan amount
- B) Counsel them about affordability and suggest alternatives
- C) Refer them to a different lender
- D) Approve the loan if it meets technical guidelines

29. An MLO's professional reputation depends on:

- A) Processing the most loans in their office
- B) Consistently ethical behavior and competent service
- C) Having the lowest interest rates
- D) Working the longest hours

30. Steering becomes problematic when it's based on:

- A) Borrower financial qualifications
- B) Loan program requirements
- C) Borrower demographics or protected characteristics
- D) Current market conditions

31. An MLO should decline to process a loan application when:

- A) The borrower has average income
- B) There are clear indications of fraud or misrepresentation
- C) Interest rates have recently increased
- D) The loan amount is small

32. Informed consent requires that borrowers:

- A) Sign documents without reading them
- B) Understand the material terms and risks of their loan
- C) Accept whatever terms are offered
- D) Rely entirely on MLO recommendations

33. When an MLO identifies errors in loan documents, they should:

- A) Correct them after closing
- B) Address them before closing
- C) Let the borrower discover them later
- D) Ignore minor errors

34. An MLO's continuing education obligations help ensure:

- A) Higher compensation levels
- B) Current knowledge of laws and best practices
- C) Faster loan processing
- D) Customer referrals

35. Fee splitting arrangements between MLOs and real estate agents:

- A) Are always permissible if disclosed
- B) May violate RESPA if they involve referral compensation
- C) Should be encouraged to build business relationships
- D) Are required for professional cooperation

36. When a borrower asks an MLO to recommend a real estate agent, the MLO should:

- A) Recommend only agents who provide referrals
- B) Provide a list of qualified agents without financial bias
- C) Refuse to make any recommendations
- D) Recommend only agents who pay referral fees

37. An MLO discovers that loan closing will be delayed due to processing issues. The MLO should:

- A) Wait until the last minute to inform the borrower
- B) Communicate the delay promptly and explain the reasons

- C) Blame the delay on the borrower
- D) Promise the delay won't affect loan terms

38. Dual agency issues arise when MLOs:

- A) Work for one lender exclusively
- B) Have financial interests in multiple aspects of the transaction
- C) Provide excellent customer service
- D) Follow all applicable regulations

39. When market conditions change during loan processing, ethical MLOs should:

- A) Keep changes secret from borrowers
- B) Inform borrowers of changes that may affect their loan
- C) Cancel all pending applications
- D) Increase fees to compensate for market changes

40. An MLO should report suspected mortgage fraud to:

- A) Local newspapers
- B) Appropriate regulatory authorities
- C) Real estate agents
- D) Other mortgage companies

41. Professional competence includes the ability to:

- A) Guarantee loan approval for all applicants
- B) Accurately assess borrower qualifications and loan suitability
- C) Process loans without regulatory compliance
- D) Avoid difficult conversations with borrowers

42. When borrowers have limited English proficiency, MLOs should:

- A) Refuse to work with them
- B) Provide interpreters or translated materials as needed
- C) Use more complex terminology
- D) Have family members translate important documents

43. An MLO learns about a borrower's personal financial difficulties. This information should be:

- A) Shared with colleagues for advice
- B) Kept confidential and used only for appropriate business purposes
- C) Discussed on social media
- D) Used to negotiate better terms with lenders

44. Quality control in mortgage origination involves:

- A) Processing loans as quickly as possible
- B) Ensuring accuracy and compliance in all loan files
- C) Approving all loan applications
- D) Minimizing documentation requirements

45. When an MLO cannot help a borrower qualify for a loan, they should:

- A) Suggest the borrower falsify information
- B) Provide honest feedback and suggest alternatives
- C) Refer them to predatory lenders
- D) Promise approval from another lender

46. Transparency in mortgage lending means:

- A) Hiding unfavorable loan terms
- B) Providing clear, complete, and honest information
- C) Using complex terminology to seem professional
- D) Withholding information borrowers don't specifically request

47. An MLO's duty to their employer includes:

- A) Following all lawful directions and company policies
- B) Violating regulations if requested by management
- C) Sharing confidential company information with competitors
- D) Prioritizing personal interests over company interests

48. When a borrower disputes a loan decision, an MLO should:

- A) Ignore the dispute
- B) Provide clear explanations and follow company dispute procedures
- C) Argue with the borrower
- D) Refer them to competitors

49. Professional networking should focus on:

- A) Finding ways to circumvent regulations
- B) Building relationships that serve client interests
- C) Sharing confidential client information
- D) Creating exclusive referral arrangements

50. An MLO should consider a borrower's race when:

- A) Determining loan eligibility
- B) Setting interest rates
- C) Never - race should not influence lending decisions
- D) Assessing creditworthiness

51. When technology systems fail during loan processing, an MLO should:

- A) Guess at loan terms to maintain schedules
- B) Implement backup procedures and communicate delays

- C) Approve loans without proper verification
- D) Cancel all affected applications

52. Best practices for document management include:

- A) Storing documents in unsecured locations
- B) Maintaining organized, secure, and accessible loan files
- C) Sharing documents freely among staff
- D) Disposing of documents immediately after closing

53. An MLO discovers their company is engaging in discriminatory practices. The MLO should:

- A) Ignore the practices to keep their job
- B) Report the practices to appropriate authorities
- C) Participate in the discrimination
- D) Quit without reporting

54. When explaining adjustable-rate mortgages, MLOs must:

- A) Focus only on initial low rates
- B) Explain potential payment increases and risks
- C) Recommend them for all borrowers
- D) Minimize discussion of adjustment risks

55. Professional development for MLOs should include:

- A) Learning new sales techniques only
- B) Staying current on laws, regulations, and industry practices
- C) Focusing solely on company products
- D) Avoiding regulatory updates

56. An MLO's marketing materials should:

- A) Promise guaranteed loan approval
- B) Accurately represent available loan programs and terms
- C) Exaggerate benefits to attract customers
- D) Use fear-based appeals

57. When a borrower provides incomplete information, an MLO should:

- A) Fill in missing information with estimates
- B) Request complete and accurate information
- C) Process the loan with available information
- D) Make assumptions about missing details

58. Ethical MLOs should decline loans that:

- A) Have average profit margins
- B) Clearly do not serve the borrower's best interests
- C) Require standard documentation
- D) Take longer than usual to process

59. When discussing loan options, MLOs should:

- A) Present only the most profitable options
- B) Explain all suitable options available to the borrower
- C) Focus on products with highest commissions
- D) Limit choices to simplify decisions

60. An MLO's responsibility for loan accuracy extends:

- A) Only to loan approval
- B) Through closing and beyond
- C) Only to application submission
- D) Until loan documents are signed

61. When borrowers face financial hardship after closing, ethical MLOs should:

- A) Ignore post-closing contact
- B) Provide information about available assistance programs
- C) Encourage default to start over
- D) Recommend bankruptcy immediately

62. Social media use by MLOs should:

- A) Include sharing confidential client information
- B) Maintain professional standards and protect client privacy
- C) Focus on personal opinions about clients
- D) Ignore compliance requirements

63. An MLO learns about changes in lending regulations. They should:

- A) Wait for formal company training
- B) Study the changes and implement them promptly
- C) Continue using old procedures until forced to change
- D) Ignore changes that seem inconvenient

64. When working with elderly borrowers, MLOs should:

- A) Assume they need special assistance
- B) Treat them with the same professionalism as all clients
- C) Recommend against homeownership
- D) Simplify explanations to an inappropriate degree

65. Quality assurance in mortgage lending involves:

- A) Approving all loan applications
- B) Systematic review of loan files for accuracy and compliance

- C) Minimizing documentation requirements
- D) Processing loans as quickly as possible

66. An MLO should refuse referral compensation from:

- A) Their employing company
- B) Settlement service providers in exchange for referrals
- C) Satisfied customers
- D) Professional associations

67. When explaining loan terms to borrowers, MLOs should:

- A) Use only technical terminology
- B) Adapt explanations to borrower understanding levels
- C) Provide minimal information to avoid confusion
- D) Assume borrowers understand all terms

68. Professional boundaries include:

- A) Lending personal money to clients
- B) Maintaining appropriate business relationships
- C) Becoming personally involved in client financial decisions
- D) Socializing frequently with borrowers

69. An MLO discovers an error in a credit report that affects loan qualification. The MLO should:

- A) Ignore the error if it helps loan approval
- B) Inform the borrower and help them address the error
- C) Use the error to justify higher rates
- D) Keep the error secret from the borrower

70. Continuing education requirements help ensure:

- A) Higher sales volumes
- B) Current knowledge and professional competence
- C) Increased compensation
- D) Faster loan processing

71. When a borrower wants to exclude debts from their application, an MLO should:

- A) Honor the borrower's request
- B) Include all debts for accurate qualification assessment
- C) Exclude debts that don't appear on credit reports
- D) Let underwriting discover missing debts

72. An MLO's fiduciary responsibility means they should:

- A) Maximize their own compensation
- B) Act in the borrower's best financial interest
- C) Follow company profit objectives
- D) Minimize time spent with each borrower

73. When technology creates opportunities for faster processing, MLOs should:

- A) Sacrifice accuracy for speed
- B) Maintain accuracy while improving efficiency
- C) Eliminate verification procedures
- D) Reduce borrower communication

74. Professional competence requires MLOs to:

- A) Know everything about every loan program
- B) Recognize their limitations and seek help when needed
- C) Never admit uncertainty to borrowers
- D) Make decisions beyond their expertise

75. An MLO learns that a borrower is shopping with multiple lenders. The MLO should:

- A) Discourage shopping with competitors
- B) Respect the borrower's right to compare options
- C) Provide misleading information about competitors
- D) Refuse to continue working with the borrower

76. When closing costs exceed estimates, an MLO should:

- A) Proceed without explanation
- B) Explain the differences and reasons for increases
- C) Blame other parties for the increases
- D) Suggest the borrower accept costs without question

77. Ethical marketing of mortgage services includes:

- A) Promising guaranteed approval
- B) Providing accurate information about loan programs
- C) Using high-pressure sales tactics
- D) Exaggerating benefits to attract customers

78. An MLO should report unethical behavior by colleagues to:

- A) Clients and customers
- B) Appropriate supervisors or regulatory authorities
- C) Competitors
- D) Social media platforms

79. When borrowers ask about loan modifications, MLOs should:

- A) Discourage all modification requests
- B) Provide accurate information about available options

- C) Promise modifications will be approved
- D) Charge fees for modification information

80. Professional development activities should focus on:

- A) Sales techniques exclusively
- B) Legal compliance and consumer protection
- C) Maximizing personal income
- D) Avoiding difficult regulations

81. An MLO discovers that loan documents contain errors. The MLO should:

- A) Let borrowers discover errors themselves
- B) Correct errors before closing
- C) Ignore minor discrepancies
- D) Blame errors on other parties

82. When discussing loan risks, MLOs should:

- A) Minimize risk discussion to avoid losing clients
- B) Provide complete and honest risk assessments
- C) Focus only on potential benefits
- D) Let borrowers discover risks after closing

83. Professional referral relationships should be based on:

- A) Financial compensation arrangements
- B) Quality of service and client satisfaction
- C) Exclusive dealing agreements
- D) Personal friendships only

84. An MLO's duty of care includes:

- A) Guaranteeing loan approval
- B) Providing competent and diligent service
- C) Eliminating all risks for borrowers
- D) Making financial decisions for borrowers

85. When regulatory requirements change, MLOs should:

- A) Continue using familiar procedures
- B) Implement changes promptly and completely
- C) Wait for specific direction from supervisors
- D) Apply changes selectively

86. Quality customer service includes:

- A) Promising what cannot be delivered
- B) Setting realistic expectations and meeting them
- C) Avoiding difficult conversations
- D) Prioritizing loan volume over service quality

87. An MLO learns about a potential conflict of interest. The MLO should:

- A) Ignore the conflict if it's profitable
- B) Disclose the conflict to affected parties
- C) Keep the conflict confidential
- D) Exploit the conflict for personal gain

88. When borrowers cannot qualify for desired loans, ethical MLOs should:

- A) Find ways to manipulate qualification
- B) Explain options and alternatives honestly
- C) Refer borrowers to predatory lenders
- D) Suggest falsifying application information

89. Professional communication should be:

- A) Complex to demonstrate expertise
- B) Clear, honest, and appropriate to the audience
- C) Minimal to avoid potential problems
- D) Focused on personal interests

90. An MLO's responsibility for compliance extends:

- A) Only to loan approval
- B) Throughout the entire loan process and beyond
- C) Only to application submission
- D) Until documents are signed

91. When working with first-time homebuyers, MLOs should:

- A) Assume they need minimal explanation
- B) Provide comprehensive education about the process
- C) Rush through explanations to save time
- D) Focus only on loan approval

92. Ethical business practices include:

- A) Maximizing profits regardless of client impact
- B) Balancing business success with client welfare
- C) Minimizing disclosure to clients
- D) Prioritizing personal gain over professional obligations

93. An MLO discovers that a borrower has undisclosed income. The MLO should:

- A) Ignore the additional income
- B) Include all income in qualification analysis

- C) Use the information to increase loan amount inappropriately
- D) Keep the information confidential from lenders

94. Professional accountability means:

- A) Blaming others for mistakes
- B) Taking responsibility for professional actions and decisions
- C) Avoiding responsibility whenever possible
- D) Making excuses for poor performance

95. When technology fails during critical loan processing, MLOs should:

- A) Guess at required information
- B) Implement contingency procedures and communicate delays
- C) Ignore the failure and continue processing
- D) Cancel affected loan applications

96. Ethical MLOs should decline to originate loans when:

- A) Profit margins are lower than desired
- B) Borrowers clearly cannot afford the payments
- C) Processing takes longer than usual
- D) Interest rates are not competitive

97. Professional growth requires MLOs to:

- A) Focus only on increasing loan volume
- B) Continuously improve knowledge and skills
- C) Avoid challenging assignments
- D) Minimize continuing education

98. When discussing loan programs, MLOs should:

- A) Present only the most profitable options
- B) Explain benefits and limitations of all suitable programs
- C) Focus on products with highest fees
- D) Limit explanations to save time

99. An MLO's ethical obligations include:

- A) Maximizing personal compensation
- B) Protecting borrower interests and maintaining market integrity
- C) Following only profitable company policies
- D) Avoiding regulatory compliance when convenient

100. The ultimate goal of ethical mortgage lending is to:

- A) Maximize lender profits
- B) Serve borrower needs while maintaining market integrity
- C) Minimize regulatory oversight
- D) Simplify loan processing procedures

Practice Question 5 - Ethics

- 1. B** - Protect consumers and maintain market integrity Explanation: Ethical standards in mortgage lending exist primarily to protect consumers from harmful practices and maintain the integrity of the mortgage market.
- 2. B** - Act in the borrower's best interest Explanation: Fiduciary duty requires MLOs to prioritize the borrower's best interests over their own financial gain or company profits.
- 3. B** - Present options and explain the benefits and risks of each Explanation: Ethical MLOs provide comprehensive information about suitable loan options, allowing borrowers to make informed decisions.
- 4. C** - Steer a borrower to a higher-priced loan for additional compensation Explanation: Steering borrowers to higher-cost products solely for increased compensation violates ethical standards and may violate fair lending laws.
- 5. B** - Correct the application with accurate information Explanation: MLOs have an obligation to ensure application accuracy and must correct any misrepresentations or errors discovered.
- 6. B** - Provide clear, understandable explanations Explanation: Ethical communication requires using language that borrowers can understand, avoiding unnecessary jargon or complexity.
- 7. B** - Refuse and explain the legal consequences Explanation: MLOs must refuse requests to falsify information and should educate borrowers about the legal consequences of mortgage fraud.
- 8. B** - Has personal interests that may interfere with professional duties Explanation: Conflicts of interest occur when personal financial interests could compromise professional judgment or borrower advocacy.
- 9. B** - Required by law or regulation Explanation: Compensation disclosure is required by various regulations, including TILA and state licensing laws.
- 10. B** - Recommend a smaller loan amount or different property Explanation: When borrowers cannot afford their desired loan, ethical MLOs should recommend alternatives that fit their financial capacity.
- 11. C** - Race and ethnicity Explanation: Fair lending laws prohibit discrimination based on protected characteristics like race and ethnicity, while creditworthiness factors are legitimate considerations.
- 12. A** - Provide standard underwriting and terms based on borrower qualifications Explanation: All borrowers should receive fair treatment based on their qualifications, regardless of referral source.
- 13. B** - Provide honest assessments of borrower qualification likelihood Explanation: Honesty about qualification prospects helps borrowers make informed decisions and manage expectations appropriately.

- 14. B** - Include the debts in qualification analysis Explanation: All debts that affect borrower ability to repay should be included in qualification analysis for accurate assessment.
- 15. B** - Maintain current knowledge of laws and industry practices Explanation: Professional competence requires staying current with changing regulations, market conditions, and industry best practices.
- 16. C** - The borrower clearly cannot afford the payments Explanation: MLOs should refuse to originate loans when borrowers clearly lack the ability to repay, protecting both borrower and market integrity.
- 17. B** - Repeatedly refinancing borrowers for fees without benefit Explanation: Churning involves repeated refinancing that benefits the lender/MLO through fees but provides little or no benefit to the borrower.
- 18. B** - Correct the error promptly and notify affected parties Explanation: Professional integrity requires promptly correcting errors and ensuring all affected parties are properly informed.
- 19. C** - Making loans without regard to ability to repay Explanation: Predatory lending includes making loans without proper consideration of borrower ability to repay, often leading to foreclosure.
- 20. B** - Share information only with authorized parties for legitimate business purposes Explanation: Confidentiality requires limiting information sharing to authorized parties with legitimate business needs.
- 21. B** - Consider the circumstances and explore appropriate loan options Explanation: Ethical MLOs consider borrower circumstances holistically and explore all appropriate options that might serve their needs.
- 22. B** - Create incentives to steer borrowers to higher-cost loans Explanation: Yield spread premiums become problematic when they create financial incentives to recommend higher-cost loans inappropriately.
- 23. B** - Question the appraisal and seek additional review if necessary Explanation: MLOs have a responsibility to ensure accurate property valuations and should question appraisals that seem inappropriate.
- 24. B** - Maintain appropriate professional relationships with clients Explanation: Professional boundaries require maintaining appropriate business relationships without inappropriate personal involvement.
- 25. C** - Provide truthful and non-misleading information Explanation: Ethical advertising requires honesty and accuracy, avoiding misleading statements or exaggerated claims.
- 26. B** - Disclose the relationship and ensure fair treatment Explanation: Family relationships should be disclosed to ensure transparency and fair treatment consistent with other borrowers.

- 27. A** - Advertising attractive terms then switching to less favorable terms Explanation: Bait-and-switch involves advertising attractive terms to attract customers, then switching to less favorable terms.
- 28. B** - Counsel them about affordability and suggest alternatives Explanation: Responsible lending includes counseling borrowers about affordability and suggesting alternatives when desired purchases exceed capacity.
- 29. B** - Consistently ethical behavior and competent service Explanation: Professional reputation is built on consistent ethical behavior and competent service delivery over time.
- 30. C** - Borrower demographics or protected characteristics Explanation: Steering becomes illegal when based on protected characteristics rather than legitimate financial qualifications.
- 31. B** - There are clear indications of fraud or misrepresentation Explanation: MLOs should decline applications when there are clear indications of fraud or material misrepresentation.
- 32. B** - Understand the material terms and risks of their loan Explanation: Informed consent requires that borrowers understand the material terms, risks, and implications of their loan decision.
- 33. B** - Address them before closing Explanation: Errors in loan documents should be corrected before closing to ensure accuracy and prevent future problems.
- 34. B** - Current knowledge of laws and best practices Explanation: Continuing education ensures MLOs maintain current knowledge of evolving laws, regulations, and industry best practices.
- 35. B** - May violate RESPA if they involve referral compensation Explanation: Fee splitting arrangements may violate RESPA Section 8 if they constitute compensation for referrals of settlement service business.
- 36. B** - Provide a list of qualified agents without financial bias Explanation: When making referrals, MLOs should base recommendations on service quality rather than financial arrangements.
- 37. B** - Communicate the delay promptly and explain the reasons Explanation: Professional communication requires prompt notification of delays with clear explanations of causes and expected resolution.
- 38. B** - Have financial interests in multiple aspects of the transaction Explanation: Dual agency issues arise when MLOs have financial interests in multiple aspects of transactions, creating potential conflicts.
- 39. B** - Inform borrowers of changes that may affect their loan Explanation: Transparency requires informing borrowers of market changes that could affect their loan terms or approval.
- 40. B** - Appropriate regulatory authorities Explanation: Suspected mortgage fraud should be reported to appropriate regulatory authorities or law enforcement agencies.

- 41. B** - Accurately assess borrower qualifications and loan suitability Explanation: Professional competence includes the ability to accurately assess borrower qualifications and recommend suitable loan products.
- 42. B** - Provide interpreters or translated materials as needed Explanation: Serving borrowers with limited English proficiency may require interpreters or translated materials to ensure understanding.
- 43. B** - Kept confidential and used only for appropriate business purposes Explanation: Personal financial information must be kept confidential and used only for legitimate business purposes.
- 44. B** - Ensuring accuracy and compliance in all loan files Explanation: Quality control focuses on ensuring accuracy, completeness, and regulatory compliance in loan origination processes.
- 45. B** - Provide honest feedback and suggest alternatives Explanation: When unable to help borrowers qualify, MLOs should provide honest feedback and suggest legitimate alternatives.
- 46. B** - Providing clear, complete, and honest information Explanation: Transparency requires providing clear, complete, and honest information that enables informed decision-making.
- 47. A** - Following all lawful directions and company policies Explanation: MLOs have duties to their employers that include following lawful directions and company policies while maintaining ethical standards.
- 48. B** - Provide clear explanations and follow company dispute procedures Explanation: Professional dispute resolution involves clear explanations and following established procedures for addressing borrower concerns.
- 49. B** - Building relationships that serve client interests Explanation: Professional networking should focus on building relationships that ultimately serve client interests and improve service quality.
- 50. C** - Never - race should not influence lending decisions Explanation: Race should never be considered in lending decisions, as this would constitute illegal discrimination.
- 51. B** - Implement backup procedures and communicate delays Explanation: Technology failures require implementing backup procedures and communicating any resulting delays to affected parties.
- 52. B** - Maintaining organized, secure, and accessible loan files Explanation: Document management best practices include organization, security, and appropriate accessibility for business purposes.
- 53. B** - Report the practices to appropriate authorities Explanation: Discriminatory practices should be reported to appropriate regulatory authorities to protect consumers and market integrity.
- 54. B** - Explain potential payment increases and risks Explanation: ARM disclosures must include comprehensive explanations of potential payment increases and associated risks.

- 55. B** - Staying current on laws, regulations, and industry practices Explanation: Professional development should focus on maintaining current knowledge of laws, regulations, and evolving industry practices.
- 56. B** - Accurately represent available loan programs and terms Explanation: Marketing materials must accurately represent available programs and terms without misleading statements or promises.
- 57. B** - Request complete and accurate information Explanation: Incomplete information requires follow-up to obtain complete and accurate details necessary for proper underwriting.
- 58. B** - Clearly do not serve the borrower's best interests Explanation: MLOs should decline loans that clearly do not serve borrower best interests, even if technically permissible.
- 59. B** - Explain all suitable options available to the borrower Explanation: Comprehensive counseling includes explaining all suitable loan options available to the borrower.
- 60. B** - Through closing and beyond Explanation: MLO responsibility for loan accuracy extends through closing and may include post-closing correction of errors.
- 61. B** - Provide information about available assistance programs Explanation: When borrowers face post-closing hardship, ethical MLOs provide information about available assistance programs.
- 62. B** - Maintain professional standards and protect client privacy Explanation: Social media use must maintain professional standards and protect client privacy and confidential information.
- 63. B** - Study the changes and implement them promptly Explanation: Regulatory changes should be studied and implemented promptly to ensure ongoing compliance.
- 64. B** - Treat them with the same professionalism as all clients Explanation: Elderly borrowers should receive the same professional treatment as all clients, without assumptions about their capabilities.
- 65. B** - Systematic review of loan files for accuracy and compliance Explanation: Quality assurance involves systematic review of loan files to ensure accuracy, completeness, and regulatory compliance.
- 66. B** - Settlement service providers in exchange for referrals Explanation: RESPA prohibits receiving compensation from settlement service providers in exchange for referrals.
- 67. B** - Adapt explanations to borrower understanding levels Explanation: Effective communication requires adapting explanations to individual borrower understanding levels and backgrounds.
- 68. B** - Maintaining appropriate business relationships Explanation: Professional boundaries require maintaining appropriate business relationships without inappropriate personal involvement.
- 69. B** - Inform the borrower and help them address the error Explanation: Credit report errors should be disclosed to borrowers with assistance in addressing inaccuracies.

- 70. B** - Current knowledge and professional competence Explanation: Continuing education requirements ensure MLOs maintain current knowledge and professional competence.
- 71. B** - Include all debts for accurate qualification assessment Explanation: All debts affecting ability to repay must be included for accurate qualification assessment.
- 72. B** - Act in the borrower's best financial interest Explanation: Fiduciary responsibility requires acting in the borrower's best financial interest rather than maximizing personal gain.
- 73. B** - Maintain accuracy while improving efficiency Explanation: Technology improvements should enhance efficiency while maintaining accuracy and compliance standards.
- 74. B** - Recognize their limitations and seek help when needed Explanation: Professional competence includes recognizing limitations and seeking appropriate assistance when needed.
- 75. B** - Respect the borrower's right to compare options Explanation: Borrowers have the right to shop with multiple lenders, and this right should be respected by MLOs.
- 76. B** - Explain the differences and reasons for increases Explanation: Cost increases should be explained clearly with reasons for differences from original estimates.
- 77. B** - Providing accurate information about loan programs Explanation: Ethical marketing provides accurate information about loan programs without misleading statements or promises.
- 78. B** - Appropriate supervisors or regulatory authorities Explanation: Unethical behavior should be reported to appropriate supervisors or regulatory authorities through proper channels.
- 79. B** - Provide accurate information about available options Explanation: Loan modification inquiries should receive accurate information about available options and procedures.
- 80. B** - Legal compliance and consumer protection Explanation: Professional development should focus on legal compliance and consumer protection rather than just sales techniques.
- 81. B** - Correct errors before closing Explanation: Document errors should be corrected before closing to ensure accuracy and prevent future problems.
- 82. B** - Provide complete and honest risk assessments Explanation: Risk discussions must be complete and honest, allowing borrowers to make fully informed decisions.
- 83. B** - Quality of service and client satisfaction Explanation: Professional referral relationships should be based on service quality and client satisfaction rather than financial arrangements.
- 84. B** - Providing competent and diligent service Explanation: Duty of care includes providing competent and diligent service that meets professional standards.

- 85. B** - Implement changes promptly and completely Explanation: Regulatory changes should be implemented promptly and completely to ensure ongoing compliance.
- 86. B** - Setting realistic expectations and meeting them Explanation: Quality customer service involves setting realistic expectations and consistently meeting or exceeding them.
- 87. B** - Disclose the conflict to affected parties Explanation: Conflicts of interest should be disclosed to affected parties to ensure transparency and informed decision-making.
- 88. B** - Explain options and alternatives honestly Explanation: When borrowers cannot qualify, MLOs should honestly explain available options and alternatives.
- 89. B** - Clear, honest, and appropriate to the audience Explanation: Professional communication should be clear, honest, and appropriate to the specific audience and situation.
- 90. B** - Throughout the entire loan process and beyond Explanation: Compliance responsibility extends throughout the entire loan process and may include post-closing obligations.
- 91. B** - Provide comprehensive education about the process Explanation: First-time homebuyers benefit from comprehensive education about the mortgage process and homeownership responsibilities.
- 92. B** - Balancing business success with client welfare Explanation: Ethical business practices balance legitimate business success with client welfare and market integrity.
- 93. B** - Include all income in qualification analysis Explanation: All verifiable income should be included in qualification analysis for accurate assessment of borrower capacity.
- 94. B** - Taking responsibility for professional actions and decisions Explanation: Professional accountability requires taking responsibility for actions and decisions rather than avoiding or deflecting responsibility.
- 95. B** - Implement contingency procedures and communicate delays Explanation: Technology failures require implementing contingency procedures and communicating any resulting delays.
- 96. B** - Borrowers clearly cannot afford the payments Explanation: MLOs should decline loans when borrowers clearly cannot afford the payments, regardless of technical qualification.
- 97. B** - Continuously improve knowledge and skills Explanation: Professional growth requires continuously improving knowledge and skills through education and experience.
- 98. B** - Explain benefits and limitations of all suitable programs Explanation: Complete program discussions include explaining both benefits and limitations of all suitable options.
- 99. B** - Protecting borrower interests and maintaining market integrity Explanation: Ethical obligations center on protecting borrower interests while maintaining overall market integrity.

100. B - Serve borrower needs while maintaining market integrity Explanation: The ultimate goal of ethical mortgage lending is serving borrower needs while maintaining market integrity and public trust.