

PRACTICE TEST 10

Instructions: Select the best answer for each question. Mark your answers carefully. You have 190 minutes to complete this examination.

1. A borrower applies for a mortgage on March 1. The lender mails the Loan Estimate on March 3. Under the TRID mailbox rule, when is the LE presumed received?

- A. March 6, which is 3 business days after mailing per TRID requirements
- B. March 4, which is the next business day after mailing the document
- C. March 10, which is 7 calendar days after the application was received
- D. March 3, which is the same day the Loan Estimate was mailed out

2. Under RESPA, a controlled business arrangement is permitted if all of the following conditions are met EXCEPT:

- A. The consumer receives a written disclosure of the business relationship involved
- B. The consumer is free to obtain services from any provider they choose
- C. The only payments made are required referral fees between the parties
- D. The referring party receives only a return on ownership interest held

3. A creditor determines that a loan is a "higher-priced mortgage loan." Which requirement applies?

- A. The loan must have an escrow account for property taxes for 3 years
- B. The loan must have an escrow account for taxes and insurance for 5 years
- C. The borrower must complete homeownership counseling before application
- D. The loan must be reported to the CFPB within 15 days of closing

4. Under ECOA, a creditor must provide an adverse action notice within what timeframe?

- A. 15 days of receiving the completed application from the borrower
- B. 45 days of the credit decision being made by underwriting staff
- C. 60 days of receiving the initial application from the applicant
- D. 30 days of taking the adverse action on the completed application

5. Under TILA, which transaction provides the borrower with a right of rescission?

- A. A cash-out refinance secured by the borrower's primary residence
- B. A purchase money mortgage on the borrower's primary residence
- C. A refinance transaction on the borrower's vacation home property
- D. A home equity loan secured by an investment rental property

6. A servicer receives a notice of error from a borrower on October 1. The servicer must respond within:

- A. 10 business days with no possible extension allowed for servicers

- B. 15 calendar days with a possible 10-day extension if needed
- C. 30 business days, extendable to 45 business days with notice
- D. 60 calendar days with no extension permitted under regulations

7. Under HMDA, which institution is required to report mortgage loan data?

- A. Private individuals who occasionally make residential mortgage loans
- B. Depository institutions meeting asset and activity thresholds set forth
- C. Real estate agents who refer borrowers to mortgage loan originators
- D. Appraisers who conduct valuations on residential mortgage properties

8. Under the Fair Housing Act, which action by a lender would be considered illegal?

- A. Requiring a larger down payment for borrowers with lower credit scores
- B. Charging higher interest rates to borrowers with limited credit history
- C. Offering different loan products based on the loan amount requested
- D. Refusing to lend in neighborhoods based on racial composition there

9. A borrower's Loan Estimate shows title services the borrower can shop for totaling \$1,500. The borrower uses a provider from the lender's written list. At closing, these services total \$1,700. What is the result?

- A. This is a 10% tolerance category violation requiring a \$50 cure payment

- B. This is within acceptable limits and requires no action from lender
- C. This is a zero tolerance violation requiring a full \$200 refund here
- D. The borrower must pay the difference since they selected provider

10. Under TILA Regulation Z, the finance charge includes all of the following EXCEPT:

- A. Loan origination fees charged by the creditor for making the loan
- B. Points paid to reduce the interest rate on the mortgage loan
- C. Fees for recording the mortgage or deed of trust with county
- D. Private mortgage insurance premiums required by the lender

11. Under RESPA Section 10, the maximum escrow cushion a servicer may maintain is:

- A. One month of escrow payments for taxes and insurance premiums
- B. One-sixth of total annual escrow disbursements for the account
- C. Three months of escrow payments as a reserve for shortages
- D. No cushion is permitted under federal servicing regulations

12. A borrower closes on a refinance of their primary residence on Tuesday. All required disclosures were provided at closing. When does the rescission period expire?

- A. Wednesday at midnight, which is 1 business day after consummation
- B. Thursday at midnight, which is 2 business days after consummation

- C. The following Monday at midnight if no holidays are involved
- D. Friday at midnight, which is 3 business days after consummation

13. Under the Homeowners Protection Act, a borrower may request PMI cancellation when:

- A. The LTV reaches 80% based on original value and amortization schedule
- B. The loan has been paid on time for 12 consecutive monthly payments
- C. The property has increased in value by at least 10% since purchase
- D. The borrower has owned the property for at least 24 full months

14. Under FCRA, a consumer may obtain a free credit report from each bureau:

- A. Only when they have been denied credit based on credit report data
- B. Every 6 months regardless of any credit applications submitted
- C. Once every 12 months through the centralized source established
- D. Only after filing a formal dispute with the credit bureau involved

15. Under ECOA, which factor may a creditor NOT use when evaluating a loan application?

- A. The applicant's debt-to-income ratio calculated from verified income
- B. The applicant's receipt of public assistance income for qualification
- C. The applicant's employment history and stability in their position

D. The applicant's credit score and payment history on prior accounts

16. A lender offers a loan with negative amortization features. Under QM rules, this loan:

- A. Qualifies for QM safe harbor if points and fees are within limits
- B. May be a QM if the borrower provides informed written consent
- C. Is permitted as a QM for borrowers with credit scores above 740
- D. Cannot be classified as a Qualified Mortgage under any situation

17. Under TRID, a "business day" for Closing Disclosure delivery purposes means:

- A. All calendar days except Sundays and federal public holidays
- B. Monday through Friday excluding all federal public holidays
- C. All calendar days including weekends and federal holidays
- D. Only days when the creditor's offices are open for business

18. Under the BSA/AML, a Currency Transaction Report must be filed for cash transactions:

- A. Exceeding \$5,000 conducted by a customer in a single day
- B. Involving any international wire transfer regardless of amount
- C. Exceeding \$10,000 conducted by a customer in a single day
- D. Only when the transaction appears suspicious to the institution

19. Under RESPA, which fee arrangement between settlement service providers is prohibited?

- A. A title company paying a fee to an attorney for title examination work
- B. A lender paying a referral fee to a real estate agent for leads
- C. An employer paying salary to an employee for loan originations
- D. A title company paying an abstractor for searching public records

20. Under the E-Sign Act, a consumer's consent to electronic disclosures must include:

- A. Only a verbal acknowledgment recorded by the loan originator
- B. A notarized statement confirming the consumer's agreement
- C. A simple checkbox on the online application form submitted
- D. Affirmative consent after disclosure of hardware and software needs

21. A borrower's Closing Disclosure shows the APR increased by 0.15% from the Loan Estimate on a fixed-rate loan. This change:

- A. Requires a new 3-day waiting period since it exceeds the 1/8% tolerance
- B. Is within tolerance and does not require any waiting period extension
- C. Requires immediate cancellation of the loan transaction by lender
- D. Requires only written acknowledgment from the borrower before close

22. Under TILA, an adjustable-rate mortgage must include a lifetime cap on:

- A. Only the monthly payment amount that the borrower must pay
- B. Only the margin that the lender may charge on the loan
- C. The maximum interest rate that may be charged over the loan life
- D. Only the index value that may be used for rate calculations

23. Under ECOA, a creditor taking adverse action must provide the applicant with:

- A. Only the name of the credit bureau that provided the report
- B. The specific reasons for denial or notice of right to request them
- C. A copy of the complete loan file including all internal notes
- D. Only verbal notification within 5 days of the credit decision

24. Under RESPA, which disclosure must be provided at or before loan application?

- A. The Closing Disclosure showing final terms and actual costs
- B. The appraisal report for the property being financed by borrower
- C. The final title commitment showing all exceptions to coverage
- D. The Special Information Booklet for purchase transactions

25. Under HMDA, data collection and reporting helps regulators identify potential:

- A. Discriminatory lending patterns and community reinvestment needs

- B. Individual borrower creditworthiness for specific loan applications
- C. Property valuation errors made by licensed appraisers nationwide
- D. Interest rate manipulation by lenders in certain market areas

26. A borrower applies for a HOEPA high-cost mortgage. Which requirement applies?

- A. The borrower must provide a 25% down payment minimum
- B. The loan must have a maximum 15-year term limit applied
- C. Pre-loan counseling from a HUD-approved counselor is required
- D. The interest rate cannot exceed the prime rate by any amount

27. Under TRID, the Loan Estimate must be provided within 3 business days of:

- A. The borrower requesting rate quotes from the loan originator
- B. Receiving the six pieces of information that constitute application
- C. The borrower providing signed authorization to pull credit report
- D. The property appraisal being ordered by the lender or broker

28. Under the Gramm-Leach-Bliley Act, a financial institution must provide privacy notices:

- A. Only when specifically requested in writing by the customer
- B. Only for customers with loan balances exceeding fifty thousand

- C. Only to customers who have been denied credit by institution
- D. At account opening and annually thereafter for customers

29. Under the Dodd-Frank Act, the CFPB has authority to enforce consumer protection laws against:

- A. Mortgage lenders, servicers, and other covered financial institutions
- B. Only federally chartered banks with assets over ten billion
- C. Only credit unions with fewer than one thousand members
- D. Only private mortgage insurance companies operating nationally

30. Under the SAFE Act, the purpose of the nationwide mortgage licensing system is to:

- A. Replace all state regulatory agencies with a single federal entity
- B. Set interest rates for all residential mortgage loans nationwide
- C. Provide uniform license application and reporting for MLOs
- D. Eliminate the need for background checks on loan originators

31. An MLO fails the national test component on their third attempt. The waiting period before the fourth attempt is:

- A. 30 days from the date of the most recent failed test attempt
- B. 180 days from the date of the most recent failed test attempt
- C. 90 days from the date of the most recent failed test attempt
- D. 365 days from the date of the initial failed test attempt

32. Under the SAFE Act, which individual is exempt from state MLO licensing requirements?

- A. An independent contractor loan processor negotiating loan rates
- B. A mortgage broker employee who takes residential loan applications
- C. A real estate agent who discusses loan terms with potential buyers
- D. An MLO employed by a federally chartered bank or credit union

33. Under the SAFE Act, pre-licensing education requirements total:

- A. 20 hours including federal law, ethics, and nontraditional products
- B. 8 hours consisting only of federal mortgage law instruction
- C. 30 hours with no specific content requirements mandated
- D. 15 hours focused exclusively on state-specific regulations

34. A state regulator discovers an MLO has been convicted of mortgage fraud. The regulator may:

- A. Only issue a written warning for the first offense documented
- B. Take no action if the conviction occurred over one year ago
- C. Revoke the license based on the felony fraud conviction
- D. Suspend the license for a maximum of 30 calendar days

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

- A. Within 60 days following the license renewal deadline date
- B. By December 31 of each year to maintain license for next year
- C. Every two years rather than on an annual basis requirement
- D. Only when specifically requested by the state regulatory agency

36. The NMLS unique identifier serves to:

- A. Calculate the interest rate that an MLO may offer borrowers
- B. Determine the maximum loan amount an MLO may originate
- C. Set commission structures for the MLO at their employer
- D. Track MLOs and provide public access to licensing information

37. Under the SAFE Act, a loan processor may perform clerical tasks without a license if:

- A. They work under supervision and do not negotiate loan terms
- B. They have completed at least 8 hours of education training
- C. They only work on loans under two hundred thousand dollars
- D. They have been employed in the industry for over two years

38. Under state regulatory authority, grounds for license denial include:

- A. Having previously worked for a company that was investigated

- B. Living in a state different from the licensing state applied for
- C. Material misstatement or omission on the license application
- D. Having a credit score below the state's minimum requirement

39. Under the SAFE Act, temporary authority to originate allows an MLO to:

- A. Originate without completing any pre-licensing education first
- B. Work in a new state while their license application is pending
- C. Operate without sponsorship from a licensed mortgage company
- D. Avoid the national test requirement for the first twelve months

40. A state-licensed MLO must notify NMLS of employment termination within:

- A. 5 business days of the termination of employment relationship
- B. 60 calendar days of the termination of employment relationship
- C. 90 calendar days of the termination of employment relationship
- D. 30 calendar days of the termination of employment relationship

41. Under the SAFE Act, an MLO's license may be placed on probation for:

- A. Minor violations that do not warrant suspension or revocation
- B. Failing to meet annual production quotas set by the employer

- C. Having a credit score below 650 at any point during the year
- D. Changing employers more than twice in a single calendar year

42. Under the SAFE Act model state law, a licensed entity must:

- A. Employ only MLOs who have at least 5 years of experience
- B. Maintain a physical office in each state where it is licensed
- C. Supervise MLO employees and ensure compliance with law
- D. Originate a minimum of 100 loans annually to retain license

43. A borrower is purchasing a property for \$350,000 with 10% down. The loan amount is:

- A. \$35,000 which represents the required down payment amount
- B. \$315,000 which is the purchase price minus the down payment
- C. \$350,000 which is the full purchase price of the property
- D. \$385,000 which includes estimated closing costs and fees

44. A borrower has gross monthly income of \$7,500. Their proposed PITIA is \$1,875 and other monthly debts total \$1,125. The back-end DTI ratio is:

- A. 25% which is calculated using only the housing payment amount
- B. 15% which excludes the housing payment from the calculation
- C. 35% which is calculated incorrectly using only other debts

D. 40% which includes both housing and all other monthly debts

45. A 5/1 ARM has an initial rate of 4.5%, margin of 2.5%, and caps of 2/2/5. At first adjustment, the index is 3.75%. The new rate is:

A. 6.25% which is the fully indexed rate limited by the 2% cap

B. 6.5% which exceeds the periodic cap structure on the loan

C. 8.75% which is calculated without applying any rate caps

D. 4.5% which remains unchanged from the initial loan rate

46. Under FHA guidelines, the minimum down payment for a borrower with a 620 credit score is:

A. 5% of the purchase price or appraised value whichever is lower

B. 10% of the purchase price or appraised value whichever lower

C. 3.5% of the purchase price or appraised value whichever lower

D. 20% of the purchase price or appraised value whichever lower

47. A VA loan's funding fee is typically:

A. Paid monthly as part of the regular mortgage payment amount

B. Paid at closing or financed into the total loan amount

C. Waived automatically for all first-time homebuyer veterans

D. Paid by the seller as a required concession in all cases

48. A Qualified Mortgage must meet all of the following criteria EXCEPT:

- A. Points and fees must not exceed 3% for most loan amounts
- B. The loan term must not exceed 30 years maximum length
- C. The borrower must provide a minimum 20% down payment
- D. The loan must be fully amortizing with no balloon features

49. The secondary mortgage market serves to:

- A. Provide liquidity to lenders by purchasing originated loans
- B. Directly originate loans to consumers seeking mortgages
- C. Set the maximum interest rates lenders may charge borrowers
- D. Regulate state-licensed mortgage loan originators nationwide

50. A borrower's three credit scores are 680, 695, and 710. The score used for qualification is:

- A. 710 which is the highest of the three bureau scores pulled
- B. 680 which is the lowest of the three bureau scores pulled
- C. 695 which is the middle score of the three scores pulled
- D. 695 which is the average of the three bureau scores pulled

51. Under conventional guidelines, PMI is typically required when LTV exceeds:

- A. 90% of the property's appraised value or purchase price
- B. 80% of the property's appraised value or purchase price
- C. 75% of the property's appraised value or purchase price
- D. 95% of the property's appraised value or purchase price

52. A reverse mortgage (HECM) allows borrowers to:

- A. Purchase a new home with no down payment or closing costs
- B. Convert an adjustable-rate mortgage to a fixed-rate mortgage
- C. Obtain financing for investment properties with no income docs
- D. Access home equity without making monthly mortgage payments

53. The appraisal approach most commonly used for single-family residences is:

- A. The sales comparison approach using recent comparable sales
- B. The income approach based on potential rental income
- C. The cost approach based on replacement cost minus depreciation
- D. The capitalization approach using net operating income

54. A borrower earns \$4,200 monthly salary plus \$600 monthly nontaxable disability. Using a 25% gross-up, total qualifying income is:

- A. \$4,200 which excludes all nontaxable disability income

- B. \$4,800 which does not apply any gross-up calculation
- C. \$4,950 which applies the 25% gross-up to disability income
- D. \$6,000 which incorrectly grosses up all income sources

55. Under conventional guidelines, a borrower purchasing a 2-unit property as primary residence needs:

- A. 25% minimum down payment for primary residence multi-unit
- B. 15% minimum down payment for primary residence multi-unit
- C. 3% minimum down payment depending on program requirements
- D. 20% minimum down payment for all multi-unit property types

56. The debt-to-income ratio is calculated using:

- A. Net monthly income after taxes and all deductions are removed
- B. Annual income divided by twelve months for monthly amount
- C. Only income from the borrower's primary employment source
- D. Gross monthly income before taxes and deductions are taken

57. A balloon mortgage features:

- A. A large final payment due at the end of the loan term
- B. Payments that gradually increase each year of the loan

- C. Negative amortization throughout the entire loan term
- D. An interest rate that adjusts monthly based on index

58. Under FHA guidelines, seller concessions are limited to:

- A. 3% of the lesser of sale price or appraised property value
- B. 10% of the lesser of sale price or appraised property value
- C. 6% of the lesser of sale price or appraised property value
- D. No limit applies to FHA seller concession amounts allowed

59. The loan-to-value ratio is calculated by dividing the loan amount by:

- A. The borrower's annual gross income from all verified sources
- B. The lesser of purchase price or appraised value of property
- C. The total closing costs including all prepaid expense items
- D. The borrower's total liquid assets available for transaction

60. A construction-to-permanent loan:

- A. Provides only temporary financing during the construction phase
- B. Requires the borrower to obtain separate permanent financing
- C. Involves two separate closings with two sets of closing costs

D. Converts from construction financing to permanent mortgage

61. Under USDA loan guidelines, the property must be located in:

A. An eligible rural area as designated by USDA program maps

B. Any metropolitan area with population over one million

C. A designated urban renewal zone within major city limits

D. Only agricultural land currently used for farming purposes

62. A borrower's pay stub shows year-to-date earnings of \$52,000 as of October 31. The calculated monthly income is:

A. \$4,333 using the pay stub date to determine months worked

B. \$6,500 incorrectly dividing by only eight months of work

C. \$5,200 using ten months from January through October

D. \$4,000 incorrectly dividing by thirteen months of work

63. Private mortgage insurance protects:

A. The borrower against property value decreases after purchase

B. The lender against borrower default on the mortgage loan

C. The title company against errors in the title examination

D. The appraiser against claims of property overvaluation

64. A borrower with a foreclosure must typically wait how long for a conventional loan?

- A. 2 years from the date the foreclosure sale was completed
- B. 4 years from the date the foreclosure sale was completed
- C. 10 years from the date the foreclosure sale was completed
- D. 7 years from the date the foreclosure sale was completed

65. The front-end DTI ratio includes:

- A. Only the total housing expense including principal, interest, taxes, and insurance
- B. All monthly debt obligations including housing, car payments, and credit cards
- C. Only the borrower's existing monthly rent payment before new purchase
- D. All monthly expenses including utilities, food, and transportation costs

66. An interest-only loan during the interest-only period:

- A. Builds equity faster than a fully amortizing mortgage loan
- B. Has lower payments because no principal is being repaid
- C. Reduces the loan balance through regular monthly payments
- D. Has higher payments than a comparable amortizing loan

67. Under TRID, an application is defined as the receipt of which information?

- A. Signed loan application form with borrower authorization
- B. Name, income, SSN, property address, estimated value, loan amount
- C. Credit report and initial disclosure acknowledgment signed
- D. Purchase contract and proof of earnest money deposit

68. A borrower's bank statement shows a \$15,000 deposit not consistent with their income. The MLO should:

- A. Ignore the deposit if the remaining balance is sufficient
- B. Accept a verbal explanation from the borrower as adequate
- C. Proceed without documentation since funds are already deposited
- D. Require written explanation and documentation of source

69. Under TRID, the Closing Disclosure must be received by the borrower:

- A. At least 3 business days before consummation of the loan
- B. At least 7 business days before consummation of the loan
- C. At least 10 business days before consummation of the loan
- D. On the same day as consummation with no prior requirement

70. A self-employed borrower must typically provide:

- A. Only the most recent year of personal tax returns filed

- B. Only a CPA letter confirming self-employment status exists
- C. Two years of personal and business tax returns filed
- D. Only bank statements showing business deposit history

71. Under TRID, which fee has zero tolerance for increases from the Loan Estimate?

- A. Homeowner's insurance premium selected by the borrower
- B. Origination charges and fees for creditor-required services
- C. Recording fees charged by the local government office
- D. Services the borrower shops for using their own provider

72. A title search reveals a judgment lien against the seller. Before closing:

- A. The lien automatically transfers to the buyer at settlement
- B. The buyer must pay the judgment as condition of purchase
- C. The lien can be ignored if the buyer waives the objection
- D. The lien must be satisfied and released to provide clear title

73. For a VA loan, the Certificate of Eligibility verifies:

- A. The veteran's entitlement to VA loan guaranty benefits
- B. The property's compliance with VA minimum property standards

- C. The appraiser's qualification to perform VA appraisals
- D. The lender's approval to originate VA mortgage loans

74. A borrower is purchasing a condo. The lender requires:

- A. Only the standard appraisal without additional project review
- B. The borrower to personally guarantee the HOA's financial obligations
- C. A project review to ensure the condo meets investor guidelines
- D. The seller to provide personal financial statements for review

75. Under RESPA, the servicing transfer notice must be provided by the new servicer:

- A. At least 30 days before the effective date of the transfer
- B. No later than 15 days after the effective date of the transfer
- C. Within 5 business days after the loan closing takes place
- D. Only upon written request from the borrower after transfer

76. A borrower's credit report shows a 90-day late payment from 2 years ago. This:

- A. Automatically disqualifies the borrower from all loan programs
- B. Requires a 5-year waiting period before mortgage eligibility
- C. Must be reported to law enforcement authorities immediately

D. May require explanation but does not automatically disqualify

77. Under TRID, a valid changed circumstance includes:

- A. The lender discovering it underestimated its own fee amounts
- B. New information that differs from what borrower provided
- C. The loan officer making a mathematical error on calculations
- D. The lender deciding to increase its profit on the transaction

78. When calculating rental income for qualification, lenders typically use:

- A. 100% of the gross monthly rent shown on lease agreement
- B. 50% of the gross monthly rent to account for all expenses
- C. 75% of gross rent to account for vacancy and expenses
- D. 125% of gross rent to provide cushion for the borrower

79. A borrower's employment verification shows a recent job change. The underwriter should:

- A. Automatically deny the loan based on employment instability
- B. Evaluate if the change represents career advancement or stability
- C. Require the borrower to return to their previous employment
- D. Ignore the change if the borrower has been paid at new job

80. Under TRID, which change does NOT require a new 3-day Closing Disclosure waiting period?

- A. The loan product changes from fixed-rate to adjustable-rate
- B. A prepayment penalty is added to the loan after initial disclosure
- C. The APR increases by 0.20% on a fixed-rate mortgage loan
- D. The cash to close decreases from the amount on Loan Estimate

81. For FHA loans, the upfront mortgage insurance premium is:

- A. A one-time payment typically financed into the loan amount
- B. A monthly payment included with regular mortgage payment
- C. Waived for all first-time homebuyers under age thirty-five
- D. Only required for loans with credit scores below 620

82. A borrower provides gift funds for down payment. Required documentation includes:

- A. Only a deposit slip showing funds deposited into account
- B. Only verbal confirmation from the gift donor by telephone
- C. Gift letter, evidence of transfer, and donor's ability to give
- D. Only the borrower's bank statement showing current balance

83. Under RESPA, the annual escrow statement must be provided within:

- A. 15 days after completion of the escrow computation year
- B. 30 days after completion of the escrow computation year
- C. 45 days after completion of the escrow computation year
- D. 60 days after completion of the escrow computation year

84. A borrower's proposed PITIA is \$2,400 and gross monthly income is \$8,000. The front-end ratio is:

- A. 25% which is below most program maximum guidelines
- B. 35% which exceeds most program maximum guidelines
- C. 40% which is significantly above all program guidelines
- D. 30% which is within most conventional program limits

85. Under conventional guidelines, which income requires a 2-year history?

- A. Base salary from current W-2 employment position held
- B. Commission, bonus, and self-employment income sources
- C. Social Security retirement benefits received monthly
- D. Child support with documented court order in place

86. A property appraisal reveals the home is in a flood zone. The lender must:

- A. Deny the loan since flood zone properties are ineligible

- B. Reduce the loan amount by 25% to account for risk
- C. Require flood insurance as a condition of the loan approval
- D. Waive the escrow requirement for this particular loan

87. Under TRID, the Loan Estimate expires if the borrower doesn't indicate intent to proceed within:

- A. 3 business days from the date the Loan Estimate was issued
- B. 10 business days from the date the Loan Estimate was issued
- C. 30 calendar days from the date the Loan Estimate was issued
- D. 60 calendar days from the date the Loan Estimate was issued

88. A borrower has a student loan with \$0 monthly payment in forbearance. For DTI:

- A. The debt is completely excluded from all DTI calculations
- B. The full outstanding balance must be paid off before closing
- C. The borrower must exit forbearance and show actual payments
- D. A calculated payment of 0.5% to 1% of balance may be used

89. When a loan is sold on the secondary market:

- A. All original loan terms and conditions remain unchanged
- B. The borrower must approve the sale in writing beforehand

- C. The interest rate automatically increases by 0.25 percent
- D. The borrower may renegotiate all terms with new owner

90. A borrower is refinancing to pay off credit card debt. This transaction is classified as:

- A. A rate-and-term refinance with standard guidelines applied
- B. A reverse mortgage with no monthly payment required
- C. A cash-out refinance with applicable restrictions and pricing
- D. A home equity line of credit with draw period provisions

91. Under TRID, recording fees fall into which tolerance category?

- A. Zero tolerance with no increase permitted from Loan Estimate
- B. 10% cumulative tolerance category for specified fee groups
- C. No tolerance limit allowing fees to increase without restriction
- D. 5% individual tolerance for each specific recording charge

92. A borrower's tax returns show depreciation expense on rental property. For income calculation:

- A. Depreciation reduces the qualifying rental income amount
- B. Depreciation must be added back because it's not a cash expense
- C. Depreciation is ignored and has no impact on calculations

D. Depreciation increases the qualifying income by double amount

93. Under VA loan guidelines, the funding fee may be waived for:

- A. First-time homebuyers using VA loan benefits for first time
- B. Veterans receiving VA disability compensation benefits
- C. Veterans who served less than two years active duty
- D. All veterans regardless of disability or service status

94. A borrower's application shows assets in an IRA account. These funds:

- A. Cannot be considered for reserves under any circumstances
- B. May be used for down payment without any documentation
- C. May be considered for reserves at discounted value typically
- D. Must be fully liquidated before the loan application date

95. Under ECOA, joint applicants who are denied must each receive:

- A. A single combined notice addressed to both applicants jointly
- B. Individual adverse action notices with reasons for the denial
- C. Only verbal notification within 30 days of the credit decision
- D. Notice only if they specifically request it in writing

96. A property inspection reveals termite damage. The lender may require:

- A. Immediate loan denial without opportunity for remediation
- B. Only a termite treatment contract before allowing closing
- C. The borrower to waive claims against the seller and lender
- D. Inspection, treatment, and repair before closing if necessary

97. Under TRID, which section of the Loan Estimate shows the estimated cash to close?

- A. Page 1 in the Loan Terms section with interest rate info
- B. Page 2 in the Closing Cost Details section with fee breakdown
- C. Page 3 in the Comparisons section with other loan scenarios
- D. Page 1 in the Costs at Closing section showing summary

98. A borrower's debt-to-income ratio exceeds standard guidelines. Compensating factors that may help include:

- A. Having no employment history or verified income sources
- B. Significant reserves, excellent credit, and low LTV on loan
- C. Multiple recent late payments on existing credit accounts
- D. High credit utilization on all revolving credit accounts

99. A borrower asks the MLO to exclude a monthly debt from the application. The MLO should:

- A. Comply with the request since the borrower knows their finances

- B. Explain that all debts must be disclosed and accurately reported
- C. Exclude the debt if it would help the borrower qualify for loan
- D. Exclude the debt but note it separately in the originator file

100. Under RESPA Section 8, which arrangement is PROHIBITED?

- A. A lender paying salary to an employee loan officer for work
- B. An attorney receiving payment for legal services actually rendered
- C. A title company paying a real estate agent for each referral sent
- D. A broker receiving payment from a lender for brokering loans

101. An MLO discovers a co-worker is falsifying income documents for borrowers. The MLO should:

- A. Report the conduct through appropriate compliance channels
- B. Ignore the situation since it does not affect their own loans
- C. Help the co-worker to maintain a positive working relationship
- D. Discuss with the co-worker privately and take no further action

102. A borrower wants to list income they expect to receive in 6 months. The MLO should:

- A. Include the expected income since the borrower anticipates it
- B. Estimate the income and include it without documentation

- C. Explain that only current, documented income can be used
- D. Include half of the expected income as a compromise solution

103. Under fair lending laws, an MLO may NOT:

- A. Charge different rates to borrowers based on credit risk factors
- B. Steer borrowers to higher-cost loans based on race or ethnicity
- C. Require income documentation from self-employed applicants
- D. Offer different loan products based on the loan amount requested

104. An appraiser asks the MLO what value is needed to make the deal work. The MLO should:

- A. Provide the minimum value needed to achieve the target LTV
- B. Suggest the appraiser add 10% cushion to the purchase price
- C. Provide the purchase contract price as helpful information
- D. Decline to discuss target values and report the appraiser

105. A borrower discloses their down payment is borrowed from a family member. The MLO should:

- A. Document this as a loan creating a liability affecting DTI
- B. Record it as a gift since it is coming from family member
- C. Ignore the disclosure if the borrower has good credit score

D. Proceed without disclosure if funds are already deposited

106. Under the SAFE Act, an MLO must conduct business with:

- A. Maximum focus on generating the highest loan volume possible
- B. Speed prioritized over accuracy in processing applications
- C. Honesty, good faith, and fair dealing with all parties
- D. Primary loyalty to their employer over consumer interests

107. A real estate agent offers the MLO \$500 for each referral that closes. The MLO should:

- A. Accept if the payment is disclosed to the borrower at closing
- B. Decline as this is a prohibited referral fee under RESPA
- C. Accept if the payment is less than 1% of the loan amount
- D. Accept only for referrals on purchase transactions processed

108. An MLO notices inconsistencies between pay stubs and the employment verification letter. The MLO should:

- A. Proceed with whichever document shows higher income for borrower
- B. Ignore the discrepancy if the borrower has sufficient income
- C. Use the average of the two documents to calculate income
- D. Investigate the discrepancy before proceeding with the loan

109. Under ECOA, an MLO may NOT discourage an applicant from applying based on:

- A. Documented credit risk factors shown on credit report pulled
- B. Verified income insufficient to qualify for requested amount
- C. The racial composition of the neighborhood of property
- D. Property type not eligible for the requested loan program

110. A borrower wants to close quickly and asks the MLO to skip income verification. The MLO should:

- A. Skip verification to provide excellent customer service
- B. Skip verification if the borrower signs a waiver of liability
- C. Explain that verification is required and cannot be waived
- D. Skip verification for loans under two hundred thousand

111. An MLO learns a colleague is accepting gifts from a title company for referrals. The MLO should:

- A. Accept gifts too since it appears to be standard practice
- B. Report the conduct through appropriate compliance channels
- C. Ignore the situation since it doesn't involve their business
- D. Discuss privately with colleague and take no further action

112. A borrower's file contains documents that appear to be altered. The MLO should:

- A. Proceed if the alterations are minor and appear harmless
- B. Accept the documents if the borrower provides explanation
- C. Request original documents and proceed if those are clear
- D. Report concerns to compliance and not proceed until resolved

113. Under Regulation N, which advertising statement is PROHIBITED?

- A. "Competitive rates available for qualified borrowers today"
- B. "FHA and VA loans available through our lending company"
- C. "Guaranteed lowest rates—we will beat any competitor"
- D. "Call for current interest rates on purchase and refinance"

114. A borrower asks the MLO to backdate a document to meet a deadline. The MLO should:

- A. Backdate if it is only by a few days and helps borrower
- B. Backdate but note the actual date elsewhere in the file
- C. Refuse as backdating constitutes fraud regardless of reason
- D. Backdate if the borrower signs a waiver accepting responsibility

115. An MLO suspects a transaction involves a straw buyer arrangement. Signs include:

- A. The buyer attending all property inspections and showings

- B. The buyer having limited knowledge of the transaction details
- C. The buyer providing complete and consistent documentation
- D. The buyer asking detailed questions about property features

116. Under the Loan Originator Rule, MLO compensation may NOT be based on:

- A. The number of loans closed during a specific time period
- B. The loan's interest rate, points, or other loan terms
- C. The principal amount of loans originated by the MLO
- D. Customer satisfaction survey scores from closed borrowers

117. A borrower provides inconsistent information about their occupancy intent. The MLO should:

- A. Accept the most recent statement without further inquiry
- B. Document concerns and seek clarification from the borrower
- C. Proceed since occupancy is difficult to verify accurately
- D. Let the underwriter resolve any occupancy questions later

118. An MLO has a personal financial interest in a title company. When disclosing affiliated business:

- A. No disclosure is required if the interest is below 10 percent
- B. Disclosure is only required for government loan transactions

- C. Written disclosure must be provided including right to shop
- D. Disclosure is optional and at the MLO's personal discretion

119. A borrower's application reveals debt not shown on the credit report. The MLO should:

- A. Ignore debts not appearing on the credit report pulled
- B. Include the debt in DTI calculation since borrower disclosed it
- C. Exclude the debt since credit report is official source
- D. Include only half the disclosed debt for DTI calculations

120. Under fair lending laws, redlining refers to the practice of:

- A. Offering competitive interest rates in high-income neighborhoods
- B. Requiring additional documentation from self-employed borrowers
- C. Charging higher rates based on documented credit risk factors
- D. Denying loans based on the racial composition of neighborhood

Answer Key and Explanations

- 1. A.** (March 6, which is 3 business days after mailing per TRID requirements) - Under TRID, when disclosures are mailed, they are presumed received 3 business days after mailing. If mailed March 3, presumed receipt is March 6.
- 2. C.** (The only payments made are required referral fees between the parties) - Controlled business arrangements are permitted if disclosure is provided, the consumer can shop elsewhere, and NO referral fees are paid. Referral fees between affiliated parties are prohibited.
- 3. B.** (The loan must have an escrow account for taxes and insurance for 5 years) - HPMLs require escrow accounts for property taxes and insurance for a minimum of 5 years from consummation.
- 4. D.** (30 days of taking the adverse action on the completed application) - Under ECOA Regulation B, creditors must provide adverse action notices within 30 days of taking the adverse action.
- 5. A.** (A cash-out refinance secured by the borrower's primary residence) - The right of rescission applies to refinances and home equity transactions on primary residences. It does not apply to purchase money mortgages, vacation homes, or investment properties.
- 6. C.** (30 business days, extendable to 45 business days with notice) - Under RESPA Regulation X, servicers must respond to notices of error within 30 business days, extendable to 45 with written notice to the borrower.
- 7. B.** (Depository institutions meeting asset and activity thresholds set forth) - HMDA applies to depository institutions and certain non-depository lenders that meet specific asset and loan activity thresholds.
- 8. D.** (Refusing to lend in neighborhoods based on racial composition there) - Redlining is illegal under the Fair Housing Act. Decisions based on credit scores, credit history, or loan amount are permissible.
- 9. A.** (This is a 10% tolerance category violation requiring a \$50 cure payment) - Services the borrower could shop for but chose from the lender's list fall under 10% cumulative tolerance. $\$1,500 \times 10\% = \150 allowed increase. $\$1,700 - \$1,500 = \$200$ increase. Violation = $\$200 - \$150 = \$50$.
- 10. C.** (Fees for recording the mortgage or deed of trust with county) - Recording fees are not finance charges under TILA. Origination fees, points, and PMI are included in the finance charge.
- 11. B.** (One-sixth of total annual escrow disbursements for the account) - RESPA Section 10 permits a cushion of up to $\frac{1}{6}$ (two months) of total annual escrow disbursements.
- 12. D.** (Friday at midnight, which is 3 business days after consummation) - Closing Tuesday means Wednesday is day 1, Thursday is day 2, Friday is day 3. Rescission expires at midnight Friday.

- 13. A.** (The LTV reaches 80% based on original value and amortization schedule) - Under HPA, borrowers may request PMI cancellation at 80% LTV based on original value and the original amortization schedule.
- 14. C.** (Once every 12 months through the centralized source established) - FCRA entitles consumers to one free credit report per year from each bureau through AnnualCreditReport.com.
- 15. B.** (The applicant's receipt of public assistance income for qualification) - ECOA prohibits discrimination based on receipt of public assistance. DTI, employment history, and credit score are permissible factors.
- 16. D.** (Cannot be classified as a Qualified Mortgage under any situation) - QM rules prohibit negative amortization. Loans with this feature cannot be Qualified Mortgages regardless of other factors.
- 17. A.** (All calendar days except Sundays and federal public holidays) - For Closing Disclosure purposes, "business day" means all calendar days except Sundays and federal public holidays.
- 18. C.** (Exceeding \$10,000 conducted by a customer in a single day) - CTRs must be filed for cash transactions exceeding \$10,000 in a single day. SARs are for suspicious activity.
- 19. B.** (A lender paying a referral fee to a real estate agent for leads) - RESPA Section 8 prohibits referral fees between settlement service providers. Payments for actual services rendered are permitted.
- 20. D.** (Affirmative consent after disclosure of hardware and software needs) - E-Sign requires affirmative consent after the consumer receives specific disclosures about electronic delivery requirements.
- 21. A.** (Requires a new 3-day waiting period since it exceeds the 1/8% tolerance) - For fixed-rate loans, APR increases exceeding 1/8% (0.125%) trigger a new 3-day waiting period. 0.15% exceeds this threshold.
- 22. C.** (The maximum interest rate that may be charged over the loan life) - TILA requires ARMs to have a lifetime cap limiting the maximum interest rate over the loan term.
- 23. B.** (The specific reasons for denial or notice of right to request them) - ECOA requires adverse action notices to include specific reasons for denial or inform applicants of their right to request reasons.
- 24. D.** (The Special Information Booklet for purchase transactions) - RESPA requires the Special Information Booklet ("Your Home Loan Toolkit") at or before application for purchase transactions.
- 25. A.** (Discriminatory lending patterns and community reinvestment needs) - HMDA data helps identify potential discriminatory lending and assess whether institutions serve community credit needs.
- 26. C.** (Pre-loan counseling from a HUD-approved counselor is required) - HOEPA high-cost mortgages require borrowers to receive counseling from a HUD-approved counselor before closing.

- 27. B.** (Receiving the six pieces of information that constitute application) - The Loan Estimate must be provided within 3 business days of receiving: name, income, SSN, property address, estimated value, and loan amount.
- 28. D.** (At account opening and annually thereafter for customers) - GLBA requires privacy notices when the customer relationship is established and annually for continuing relationships.
- 29. A.** (Mortgage lenders, servicers, and other covered financial institutions) - The CFPB has broad enforcement authority over mortgage lenders, servicers, and other consumer financial service providers.
- 30. C.** (Provide uniform license application and reporting for MLOs) - NMLS provides a centralized system for license application, renewal, and reporting across all participating states.
- 31. B.** (180 days from the date of the most recent failed test attempt) - After failing the national test three times, the waiting period increases to 180 days before the fourth attempt.
- 32. D.** (An MLO employed by a federally chartered bank or credit union) - MLOs at federally chartered depository institutions are registered, not state-licensed. They are regulated by federal banking agencies.
- 33. A.** (20 hours including federal law, ethics, and nontraditional products) - SAFE Act requires 20 hours of pre-licensing education: 3 hours federal law, 3 hours ethics, 2 hours nontraditional products, plus electives.
- 34. C.** (Revoke the license based on the felony fraud conviction) - The SAFE Act requires license revocation for felony convictions involving fraud, dishonesty, breach of trust, or money laundering.
- 35. B.** (By December 31 of each year to maintain license for next year) - CE must be completed by December 31 annually. Failure results in license expiration requiring reinstatement procedures.
- 36. D.** (Track MLOs and provide public access to licensing information) - The unique identifier allows consumers and regulators to track MLO licensing status, employment history, and disciplinary actions.
- 37. A.** (They work under supervision and do not negotiate loan terms) - Loan processors performing clerical tasks under supervision of a licensed MLO and not negotiating terms are exempt from licensing.
- 38. C.** (Material misstatement or omission on the license application) - Material misstatements or omissions demonstrate lack of integrity and are grounds for license denial.
- 39. B.** (Work in a new state while their license application is pending) - Temporary authority allows MLOs to originate in a new state while their license application is pending, subject to conditions.
- 40. D.** (30 calendar days of the termination of employment relationship) - MLOs must update NMLS with employment changes within 30 days of termination.
- 41. A.** (Minor violations that do not warrant suspension or revocation) - Probation is appropriate for violations serious enough to require oversight but not severe enough for suspension or revocation.

- 42. C.** (Supervise MLO employees and ensure compliance with law) - Licensed entities have supervisory responsibility for their MLO employees and must ensure compliance with applicable laws.
- 43. B.** (\$315,000 which is the purchase price minus the down payment) - Loan amount = Purchase price - Down payment = $\$350,000 - (\$350,000 \times 10\%) = \$350,000 - \$35,000 = \$315,000$.
- 44. D.** (40% which includes both housing and all other monthly debts) - Back-end DTI = (PITIA + Other debts) \div Income = $(\$1,875 + \$1,125) \div \$7,500 = \$3,000 \div \$7,500 = 40\%$.
- 45. A.** (6.25% which is the fully indexed rate limited by the 2% cap) - Fully indexed rate = Index + Margin = $3.75\% + 2.5\% = 6.25\%$. Initial rate is 4.5%, cap allows up to 6.5%. Since 6.25% is within the cap, it's the new rate.
- 46. C.** (3.5% of the purchase price or appraised value whichever lower) - FHA requires 3.5% minimum down payment for borrowers with credit scores of 580 or higher. Scores 500-579 require 10%.
- 47. B.** (Paid at closing or financed into the total loan amount) - The VA funding fee is typically paid at closing or financed into the loan amount at borrower's option.
- 48. D.** (The borrower must provide a minimum 20% down payment) - QM has no minimum down payment requirement. Points/fees limits, 30-year max term, and full amortization are QM requirements.
- 49. A.** (Provide liquidity to lenders by purchasing originated loans) - The secondary market (Fannie Mae, Freddie Mac, Ginnie Mae) purchases loans from originators, providing capital for new lending.
- 50. C.** (695 which is the middle score of the three scores pulled) - When three credit scores are available, lenders use the middle score. Arranged: 680, 695, 710. Middle is 695.
- 51. B.** (80% of the property's appraised value or purchase price) - PMI is typically required for conventional loans when LTV exceeds 80%.
- 52. D.** (Access home equity without making monthly mortgage payments) - HECM reverse mortgages allow seniors to access equity without monthly payments. Repayment occurs at sale, death, or move.
- 53. A.** (The sales comparison approach using recent comparable sales) - The sales comparison approach is standard for single-family residences, comparing the subject to similar recently sold properties.
- 54. C.** (\$4,950 which applies the 25% gross-up to disability income) - Salary: \$4,200. Grossed-up disability: $\$600 \times 1.25 = \750 . Total: $\$4,200 + \$750 = \$4,950$.
- 55. B.** (15% minimum down payment for primary residence multi-unit) - Conventional guidelines typically require 15% down for owner-occupied 2-4 unit properties, though some programs allow less.
- 56. D.** (Gross monthly income before taxes and deductions are taken) - DTI ratios use gross monthly income (before taxes and deductions) in the denominator.

- 57. A.** (A large final payment due at the end of the loan term) - Balloon mortgages feature regular payments during the term followed by a large final "balloon" payment.
- 58. C.** (6% of the lesser of sale price or appraised property value) - FHA limits seller concessions to 6% of the lesser of sale price or appraised value.
- 59. B.** (The lesser of purchase price or appraised value of property) - $LTV = \text{Loan amount} \div \text{Lesser of purchase price or appraised value}$.
- 60. D.** (Converts from construction financing to permanent mortgage) - Construction-to-permanent loans provide construction financing that automatically converts to permanent financing upon completion.
- 61. A.** (An eligible rural area as designated by USDA program maps) - USDA loans are for properties in USDA-designated rural areas. Eligibility is determined by USDA property eligibility maps.
- 62. C.** (\$5,200 using ten months from January through October) - YTD earnings of \$52,000 through October 31 = 10 months. Monthly income = $\$52,000 \div 10 = \$5,200$.
- 63. B.** (The lender against borrower default on the mortgage loan) - PMI protects lenders against losses when borrowers default on loans with LTV above 80%.
- 64. D.** (7 years from the date the foreclosure sale was completed) - Conventional guidelines typically require a 7-year waiting period after foreclosure before obtaining new conventional financing.
- 65. A.** (Only the total housing expense including principal, interest, taxes, and insurance) - Front-end DTI includes only housing expenses (PITIA). Back-end includes all monthly debts.
- 66. B.** (Has lower payments because no principal is being repaid) - Interest-only payments are lower than fully amortizing payments because no principal is being repaid during the interest-only period.
- 67. B.** (Name, income, SSN, property address, estimated value, loan amount) - TRID defines application as receipt of these six pieces of information, triggering the Loan Estimate requirement.
- 68. D.** (Require written explanation and documentation of source) - Large deposits inconsistent with income must be sourced with written explanation and documentation.
- 69. A.** (At least 3 business days before consummation of the loan) - Under TRID, the borrower must receive the Closing Disclosure at least 3 business days before consummation.
- 70. C.** (Two years of personal and business tax returns filed) - Self-employed borrowers typically must provide 2 years of both personal and business tax returns.
- 71. B.** (Origination charges and fees for creditor-required services) - Zero-tolerance fees include origination charges and fees for services required by the creditor where the creditor selects the provider.

- 72. D.** (The lien must be satisfied and released to provide clear title) - Judgment liens must be satisfied and released before closing to provide the buyer with clear, marketable title.
- 73. A.** (The veteran's entitlement to VA loan guaranty benefits) - The Certificate of Eligibility confirms the veteran's eligibility for VA loan benefits and available entitlement.
- 74. C.** (A project review to ensure the condo meets investor guidelines) - Condo purchases require project review to verify the project meets investor guidelines for financing.
- 75. B.** (No later than 15 days after the effective date of the transfer) - Under RESPA, the new servicer must provide notice no later than 15 days after the transfer effective date.
- 76. D.** (May require explanation but does not automatically disqualify) - A single 90-day late from 2 years ago requires explanation but doesn't automatically disqualify if other factors are strong.
- 77. B.** (New information that differs from what borrower provided) - Valid changed circumstances include new information differing from what the borrower originally provided, triggering revised LE.
- 78. C.** (75% of gross rent to account for vacancy and expenses) - Lenders typically use 75% of gross rent to account for vacancies, maintenance, and other expenses.
- 79. B.** (Evaluate if the change represents career advancement or stability) - Job changes should be evaluated for whether they represent advancement or instability, not automatically denied.
- 80. D.** (The cash to close decreases from the amount on Loan Estimate) - Only three changes trigger new waiting periods: APR increase above tolerance, loan product change, or prepayment penalty addition. Decreased cash to close doesn't require a new waiting period.
- 81. A.** (A one-time payment typically financed into the loan amount) - FHA UFMIP is a one-time upfront payment, typically financed into the loan amount rather than paid in cash.
- 82. C.** (Gift letter, evidence of transfer, and donor's ability to give) - Complete gift documentation includes gift letter, evidence of transfer, and proof the donor had funds to give.
- 83. B.** (30 days after completion of the escrow computation year) - RESPA requires the annual escrow statement within 30 days of the escrow account computation year ending.
- 84. D.** (30% which is within most conventional program limits) - Front-end DTI = PITIA ÷ Income = $\$2,400 \div \$8,000 = 30\%$.
- 85. B.** (Commission, bonus, and self-employment income sources) - Variable income sources require 2-year history. Base W-2 salary, Social Security, and court-ordered support don't require the same history.
- 86. C.** (Require flood insurance as a condition of the loan approval) - Properties in flood zones require flood insurance as a condition of federally-related mortgage loans.

- 87. B.** (10 business days from the date the Loan Estimate was issued) - Loan Estimate terms expire 10 business days from issuance unless the borrower indicates intent to proceed.
- 88. D.** (A calculated payment of 0.5% to 1% of balance may be used) - For student loans with \$0 payments, conventional guidelines require using a calculated payment for DTI.
- 89. A.** (All original loan terms and conditions remain unchanged) - When loans are sold, all contractual terms remain unchanged. Only loan ownership transfers.
- 90. C.** (A cash-out refinance with applicable restrictions and pricing) - Refinancing to pay off non-housing debt is classified as cash-out, with different guidelines and pricing.
- 91. B.** (10% cumulative tolerance category for specified fee groups) - Recording fees fall under the 10% cumulative tolerance category under TRID.
- 92. B.** (Depreciation must be added back because it's not a cash expense) - Depreciation is a non-cash expense that reduces taxable income but not actual cash flow, so it's added back for qualification.
- 93. B.** (Veterans receiving VA disability compensation benefits) - The VA funding fee is waived for veterans receiving VA disability compensation.
- 94. C.** (May be considered for reserves at discounted value typically) - Retirement accounts may count as reserves at discounted value (typically 60-70%) to account for taxes and penalties.
- 95. B.** (Individual adverse action notices with reasons for the denial) - Under ECOA, all co-applicants must receive individual adverse action notices.
- 96. D.** (Inspection, treatment, and repair before closing if necessary) - Termite damage may require inspection, treatment, and repair depending on severity and loan program requirements.
- 97. A.** (Page 1 in the Costs at Closing section showing summary) - The estimated cash to close appears on Page 1 of the Loan Estimate in the "Costs at Closing" section.
- 98. C.** (Significant reserves, excellent credit, and low LTV on loan) - Strong compensating factors include significant reserves, excellent credit history, and low LTV.
- 99. B.** (Explain that all debts must be disclosed and accurately reported) - MLOs must ensure all debts are disclosed. Excluding known debts is misrepresentation and potentially fraud.
- 100. C.** (A title company paying a real estate agent for each referral sent) - RESPA Section 8 prohibits referral fees between settlement service providers. Per-referral payments are illegal kickbacks.
- 101. A.** (Report the conduct through appropriate compliance channels) - MLOs have an ethical and often legal obligation to report known fraud through proper channels.

- 102. C.** (Explain that only current, documented income can be used) - Underwriting uses current, documented income. Expected future income cannot be used for qualification.
- 103. B.** (Steer borrowers to higher-cost loans based on race or ethnicity) - Steering based on protected characteristics violates fair lending laws. Risk-based pricing is permitted.
- 104. D.** (Decline to discuss target values and report the appraiser) - Appraiser independence rules prohibit target value discussions. Such requests should be refused and reported.
- 105. A.** (Document this as a loan creating a liability affecting DTI) - Borrowed funds create debt obligations that must be documented and included in DTI calculations.
- 106. C.** (Honesty, good faith, and fair dealing with all parties) - The SAFE Act requires MLOs to conduct business with honesty, good faith, and fair dealing.
- 107. B.** (Decline as this is a prohibited referral fee under RESPA) - RESPA prohibits referral fees between settlement service providers regardless of amount or disclosure.
- 108. D.** (Investigate the discrepancy before proceeding with the loan) - Income discrepancies between documents require investigation and resolution before proceeding.
- 109. A.** (The racial composition of the neighborhood of property) - ECOA and Fair Housing Act prohibit discouraging applications based on protected characteristics including neighborhood racial composition.
- 110. C.** (Explain that verification is required and cannot be waived) - Income verification is a regulatory requirement that cannot be waived regardless of borrower preference.
- 111. B.** (Report the conduct through appropriate compliance channels) - Known RESPA violations must be reported through proper compliance channels.
- 112. D.** (Report concerns to compliance and not proceed until resolved) - Document alteration concerns require compliance review and resolution before proceeding.
- 113. C.** ("Guaranteed lowest rates—we will beat any competitor") - Unsubstantiated guarantees and superlative claims violate Regulation N advertising rules.
- 114. C.** (Refuse as backdating constitutes fraud regardless of reason) - Backdating documents is fraud regardless of the time period or reason for the request.
- 115. B.** (The buyer having limited knowledge of the transaction details) - Straw buyers typically have limited knowledge of transaction details, don't attend inspections, and can't answer basic questions.
- 116. B.** (The loan's interest rate, points, or other loan terms) - The Loan Originator Rule prohibits compensation based on loan terms. Volume and customer satisfaction metrics are permitted.

117. B. (Document concerns and seek clarification from the borrower) - Occupancy inconsistencies require documentation and clarification before proceeding.

118. C. (Written disclosure must be provided including right to shop) - Affiliated business arrangements require written disclosure of the relationship and the borrower's right to shop elsewhere.

119. B. (Include the debt in DTI calculation since borrower disclosed it) - All known debts must be included in DTI regardless of whether they appear on the credit report.

120. D. (Denying loans based on the racial composition of neighborhood) - Redlining is the illegal practice of denying credit based on neighborhood racial or ethnic composition.