

PRACTICE TEST 12

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

1. Under RESPA, a borrower submits a written complaint about a billing error on their escrow account. The servicer must acknowledge the complaint within:

- A. 10 calendar days of receiving the written complaint
- B. 5 business days of receiving the written complaint
- C. 15 business days of receiving the written complaint
- D. 30 calendar days of receiving the written complaint

2. Under TILA, which loan feature requires additional disclosure to the borrower at or before application?

- A. A fixed interest rate for the entire loan term
- B. A 30-year amortization schedule for the loan
- C. An escrow account for taxes and insurance
- D. An adjustable interest rate that may change over time

3. Under ECOA, a creditor evaluating an application from a 70-year-old applicant:

- A. May not use age to deny credit if the applicant is creditworthy
- B. May deny based solely on age if applicant is over 65
- C. Must require a co-signer for all applicants over 60
- D. May not consider the applicant's retirement income

4. Under TRID, the term "consummation" is defined by:

- A. Federal regulations established by the CFPB only
- B. The date when the borrower signs loan documents
- C. State law determining when the borrower becomes obligated
- D. The date when funds are disbursed to the seller

5. A loan has total points and fees of \$5,500 on a loan amount of \$175,000. Under QM rules, this loan:

- A. Exceeds QM limits since points exceed 3% of amount
- B. Is within QM limits since 3.14% is within the threshold
- C. Cannot be originated under any circumstances allowed
- D. Requires a minimum 20% down payment to qualify

6. Under RESPA Section 8, which arrangement is a violation?

- A. An employer paying its employee a bonus for loans closed

- B. A title company paying an attorney for title examination
- C. A lender paying an appraiser for appraisal services
- D. A real estate agent paying a lender \$200 per referral

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

- A. A second mortgage on the borrower's principal dwelling
- B. A purchase money first mortgage on primary residence
- C. A first mortgage on a borrower's vacation home property
- D. A mortgage on property used exclusively for business

8. Under FCRA, a credit bureau must provide notice to a consumer when:

- A. The consumer pays off an existing account balance
- B. The consumer's credit score increases above 700 points
- C. Negative information is added to the consumer's file
- D. The consumer makes an on-time payment on accounts

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

- A. 15 days of the creditor receiving a completed application
- B. 30 days of the creditor taking the adverse action

- C. 45 days of the creditor receiving the initial application
- D. 60 days of the creditor making its credit decision

10. Under HMDA, covered lenders must collect and report data on:

- A. Only loans that are approved and closed by the lender
- B. Only loan applications that are denied by the lender
- C. Only loans for properties located in urban areas
- D. All applications including those withdrawn or denied

11. Under RESPA, when an escrow account has a surplus exceeding \$50:

- A. The servicer must refund the surplus within 30 days
- B. The surplus must be applied to future escrow payments
- C. The servicer may retain the surplus for emergencies
- D. The borrower must request the refund in writing

12. Under TRID, which fee is subject to zero tolerance?

- A. Survey fee when borrower selects their own provider
- B. Title insurance when borrower shops from lender list
- C. Fees paid to the creditor for underwriting the loan

D. Homeowner's insurance selected by the borrower

13. Under the Fair Housing Act, which practice is PROHIBITED?

A. Requiring a larger down payment for lower credit scores

B. Varying loan terms based on the borrower's race

C. Charging higher rates to borrowers with limited credit

D. Requiring income documentation from self-employed

14. Under TILA, the APR must include which of the following?

A. Recording fees charged by the local government office

B. Fees for voluntary credit life insurance coverage

C. Late fees charged after payment due date passes

D. Discount points paid by the borrower to reduce rate

15. Under RESPA, the Special Information Booklet must be provided:

A. Within 3 days of application for purchase transactions

B. At closing for all residential mortgage transactions

C. Only when specifically requested by the borrower

D. Within 7 days of application for all transactions

16. Under the BSA/AML, financial institutions must have:

- A. Only a designated compliance officer for the program
- B. Only written policies and procedures for compliance
- C. A comprehensive AML compliance program with training
- D. Only an external audit conducted every two years

17. Under ECOA, which information may a creditor request on an application?

- A. The applicant's religious affiliation for demographics
- B. Information about income from alimony or child support
- C. The applicant's plans for having children in future
- D. The applicant's political party membership status

18. Under TRID, a revised Loan Estimate may be issued when:

- A. The lender discovers it underestimated its own fees
- B. The loan officer made an arithmetic calculation error
- C. The lender wants to increase profit on transaction
- D. A valid changed circumstance occurs after application

19. Under the Homeowners Protection Act, borrower-initiated PMI cancellation:

- A. Is available when LTV reaches 80% based on original value
- B. Occurs automatically when LTV reaches 78% of value
- C. Requires property appreciation of at least 20 percent
- D. Is available only after 5 years of on-time payments

20. Under TILA, which loan term must be disclosed on the Loan Estimate?

- A. The name of the loan servicer that will handle payments
- B. The property's assessed value for tax purposes
- C. The total interest that will be paid over the loan term
- D. The borrower's credit score used for approval

21. Under RESPA, a servicer must respond to a notice of error within:

- A. 10 business days with no extension permitted
- B. 30 business days, extendable to 45 days with notice
- C. 45 business days with no extension permitted
- D. 60 business days, extendable to 90 days with notice

22. Under the E-Sign Act, which requirement applies to electronic records?

- A. Electronic records must be printed within 30 days

- B. Electronic signatures are valid only for refinances
- C. Electronic records must be notarized electronically
- D. Consumer must consent after receiving proper disclosure

23. Under ECOA, when evaluating a married applicant in a community property state:

- A. The creditor may consider information about the non-applicant spouse
- B. The creditor must ignore all information about the spouse
- C. The creditor must require the spouse to be a co-applicant
- D. The creditor may not consider any community assets

24. Under the Fair Housing Act, which advertising phrase is PROHIBITED?

- A. "Walking distance to public transportation available"
- B. "Recently renovated with new kitchen appliances"
- C. "Perfect neighborhood for Christian families only"
- D. "Close to shopping centers and entertainment"

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

- A. On the same day as the closing of the loan
- B. At least 3 business days before consummation

- C. At least 7 business days before consummation
- D. At least 10 business days before consummation

26. Under RESPA, which payment is considered an illegal kickback?

- A. Payment to an employee for duties as loan officer
- B. Payment for goods or services actually furnished
- C. Return on ownership interest in affiliated company
- D. Payment to real estate agent solely for referral

27. Under TILA, the finance charge includes all of the following EXCEPT:

- A. Fees for title examination and abstract services
- B. Loan origination fees charged by the creditor
- C. Points paid to reduce the interest rate on loan
- D. Private mortgage insurance premiums required

28. Under HMDA, the purpose of data collection includes:

- A. Setting individual interest rates for applicants
- B. Determining creditworthiness of loan applicants
- C. Identifying possible discriminatory lending patterns

D. Calculating debt-to-income ratios for borrowers

29. Under the Gramm-Leach-Bliley Act, privacy notices must:

- A. Be provided only when customer requests them
- B. Explain information collection and sharing policies
- C. Be provided only to customers denied credit
- D. Include the customer's complete credit history

30. Under the SAFE Act, the definition of "mortgage loan originator" includes:

- A. A real estate agent who refers clients to lenders
- B. An attorney who provides legal advice on mortgages
- C. A loan processor who works under direct supervision
- D. An individual who takes applications for compensation

31. Under the SAFE Act, which criminal history would disqualify an applicant?

- A. A felony involving fraud or dishonesty in past 7 years
- B. A minor traffic violation from more than 5 years ago
- C. A misdemeanor not involving financial crimes at all
- D. Any criminal record regardless of age or severity

32. The NMLS unique identifier must appear on:

- A. Only internal company documents and records
- B. Only closing documents signed by the borrower
- C. All loan documents, advertisements, and business cards
- D. Only documents for government-backed loan programs

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

- A. Within 60 days after license expiration date occurs
- B. By December 31 of each year to maintain the license
- C. Every two years instead of on annual basis required
- D. Only when requested by the state regulatory agency

34. Under the SAFE Act, pre-licensing education requirements include:

- A. 10 hours of general mortgage industry education
- B. 15 hours of only state-specific regulations training
- C. 25 hours of real estate appraisal training courses
- D. 20 hours including federal law, ethics, and products

35. Under state regulatory authority, an MLO license may be denied for:

- A. Material misstatement on the license application filed
- B. Having previously worked for multiple employers
- C. Living in a state different from the licensing state
- D. Having a credit score below the national average

36. Under the SAFE Act, a loan processor must be licensed if:

- A. They work under supervision of a licensed MLO
- B. They only perform clerical and administrative tasks
- C. They negotiate loan terms as an independent contractor
- D. They process loans only for their licensed employer

37. Under the SAFE Act, the waiting period after failing the test twice is:

- A. 60 days from the date of the second failed attempt
- B. 30 days from the date of the second failed attempt
- C. 90 days from the date of the second failed attempt
- D. 180 days from the date of the second failed attempt

38. Under the SAFE Act, temporary authority to originate requires:

- A. Completion of the new state's pre-licensing education

- B. Passing the new state's test component before working
- C. Working under direct supervision for the first 90 days
- D. A current valid license with no pending disciplinary actions

39. Under the SAFE Act, an MLO must notify NMLS of a change in employment:

- A. Within 30 days of the change in employment status
- B. Within 10 business days of the change in status
- C. Within 60 days of the change in employment status
- D. Only when renewing the license annually with state

40. Under state regulatory authority, examination of licensees may include:

- A. Only review of marketing materials and advertisements
- B. Only interviews with borrowers who filed complaints
- C. Review of books, records, and employee interviews
- D. Only review of closed loan files from past year

41. Under the SAFE Act, grounds for license revocation include:

- A. Failure to meet annual loan production requirements
- B. Engaging in fraud, dishonesty, or unethical conduct

- C. Having a credit score drop below minimum threshold
- D. Changing employers more than twice in calendar year

42. Under the SAFE Act model state law, surety bonds are required to:

- A. Generate revenue for the state regulatory agency
- B. Limit the number of MLOs in the state market
- C. Fund annual examinations of mortgage companies
- D. Provide consumer protection in case of MLO misconduct

43. A borrower purchases a home for \$385,000 with 20% down. The loan amount is:

- A. \$308,000, which is the purchase price minus down payment
- B. \$77,000, which represents the required down payment
- C. \$385,000, which is the full purchase price of property
- D. \$346,500, which assumes a 10% down payment amount

44. A borrower's gross monthly income is \$8,200. Their PITIA is \$2,050 and other monthly debts total \$1,230. The back-end DTI is:

- A. 25%, calculated using only the housing payment amount
- B. 15%, calculated using only the other monthly debts
- C. 40%, calculated using housing and all other debts
- D. 50%, which is calculated using incorrect amounts

45. A 3/1 ARM has an initial rate of 4.75%, margin of 2.75%, and caps of 2/2/5. At first adjustment, the index is 5.0%. The new rate is:

- A. 5.0%, using only the current index without margin
- B. 6.75%, limited by the 2% initial adjustment cap
- C. 7.75%, which is the fully indexed rate calculated
- D. 9.75%, which exceeds the lifetime cap structure

46. Under VA loan guidelines, which statement about the funding fee is TRUE?

- A. The funding fee is required for all veterans equally
- B. The funding fee must be paid in cash at closing
- C. The funding fee is waived for first-time VA users
- D. The funding fee may be waived for disabled veterans

47. Under FHA guidelines, the minimum down payment requirement is:

- A. 3.5% for borrowers with credit scores of 580 or higher
- B. 5% for all borrowers regardless of credit score
- C. 10% for all borrowers regardless of credit score
- D. 20% for borrowers with credit scores below 620

48. A Qualified Mortgage may NOT have which of the following features?

- A. A 30-year fixed interest rate for the loan term
- B. An escrow account for taxes and insurance payments
- C. An interest-only payment feature for any period
- D. Points and fees totaling 2.5% of the loan amount

49. The secondary mortgage market provides which benefit to lenders?

- A. Directly originates loans to consumer borrowers
- B. Liquidity by purchasing loans from originators
- C. Sets maximum interest rates for all mortgages
- D. Regulates mortgage loan originators nationwide

50. A borrower has credit scores of 688, 702, and 675. The qualifying score is:

- A. 702, which is the highest score from all bureaus
- B. 675, which is the lowest score from all bureaus
- C. 688, which is calculated as the average score
- D. 688, which is the middle score of the three pulled

51. Under conventional guidelines, PMI can be canceled when LTV reaches:

- A. 80% based on original value with borrower request

- B. 85% based on original value with borrower request
- C. 78% based on current appraised value of property
- D. 90% based on original value with borrower request

52. A reverse mortgage (HECM) borrower must:

- A. Make monthly principal and interest payments
- B. Repay the loan within 10 years of origination
- C. Be at least 62 years old and occupy the property
- D. Have no existing mortgage on the property at all

53. The income approach to appraisal is most appropriate for:

- A. Single-family owner-occupied residential properties
- B. Income-producing rental and investment properties
- C. Vacant land without any existing improvements
- D. New construction with no established rental history

54. A borrower earns \$6,000 monthly salary plus \$1,200 monthly nontaxable Social Security. Using 25% gross-up, qualifying income is:

- A. \$6,000, which excludes all nontaxable income sources
- B. \$7,200, which uses income without any gross-up

- C. \$6,900, which applies incorrect gross-up percentage
- D. \$7,500, which correctly grosses up Social Security

55. Under conventional guidelines, a second home must meet which requirement?

- A. Be suitable for year-round occupancy by the borrower
- B. Be located within 50 miles of primary residence
- C. Be used primarily as a rental investment property
- D. Be occupied by the borrower at least 300 days yearly

56. The debt-to-income ratio uses which income figure?

- A. Net income after taxes and all deductions taken
- B. Only income from primary employment source
- C. Gross monthly income before taxes and deductions
- D. Projected income for the next calendar year

57. A balloon mortgage requires the borrower to:

- A. Make increasing payments throughout the loan term
- B. Make a large final payment at the end of the term
- C. Pay only interest for the entire loan duration

D. Refinance every five years during the loan term

58. Under FHA guidelines, the maximum seller concession is:

A. 3% of the lesser of sale price or appraised value

B. 10% of the lesser of sale price or appraised value

C. No limit on seller concessions is established

D. 6% of the lesser of sale price or appraised value

59. The loan-to-value ratio is calculated using:

A. The lesser of purchase price or appraised value

B. The higher of purchase price or appraised value

C. Only the appraised value regardless of price

D. Only the purchase price regardless of appraisal

60. A construction-to-permanent loan features:

A. Two separate closings with two sets of closing costs

B. Only short-term financing during construction phase

C. Automatic conversion to permanent mortgage financing

D. Financing only for commercial construction projects

61. Under USDA guidelines, which property is eligible?

- A. A property located in a major metropolitan area
- B. A property in a USDA-designated rural eligible area
- C. A property used primarily for commercial purposes
- D. A property located in any suburban neighborhood

62. A borrower's pay stub shows YTD earnings of \$65,000 as of September 30. Monthly income is:

- A. \$5,417, dividing YTD by 12 months incorrectly
- B. \$6,500, dividing YTD by 10 months incorrectly
- C. \$8,125, dividing YTD by 8 months incorrectly
- D. \$7,222, dividing YTD by 9 months correctly

63. Private mortgage insurance primarily protects:

- A. The lender against losses from borrower default
- B. The borrower against declining property values
- C. The title company against title examination errors
- D. The appraiser against property valuation claims

64. After a foreclosure, a conventional loan typically requires waiting:

- A. 2 years from the completion of the foreclosure
- B. 4 years from the completion of the foreclosure
- C. 7 years from the completion of the foreclosure
- D. 10 years from the completion of the foreclosure

65. The front-end DTI ratio includes:

- A. All monthly debts including housing and credit cards
- B. Only the proposed housing expense (PITIA) payment
- C. All expenses including utilities, food, transportation
- D. Only existing rent before purchasing the new home

66. During the interest-only period, a loan:

- A. Builds equity through principal reduction each month
- B. Has higher payments than a fully amortizing loan
- C. Reduces the principal balance with each payment
- D. Has lower payments because no principal is paid

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

- A. Name, income, SSN, property address, value, loan amount

- B. A signed application form with borrower authorization
- C. A credit report and income verification documents
- D. A purchase contract and earnest money deposit

68. A borrower's bank statement shows a \$30,000 deposit from an unknown source. The MLO must:

- A. Ignore the deposit if funds are sufficient for closing
- B. Accept a verbal explanation from the borrower only
- C. Require written explanation and source documentation
- D. Proceed without questions if credit score is high

69. Under TRID, which fee has a 10% cumulative tolerance?

- A. Origination charges paid directly to the creditor
- B. Recording fees and services from lender's provider list
- C. Fees for services the creditor requires and selects
- D. Homeowner's insurance selected by the borrower

70. A self-employed borrower with 30% ownership of an S-Corp must provide:

- A. Only the most recent year of personal tax returns
- B. Only a CPA letter confirming business ownership

- C. Only bank statements showing business deposits
- D. Personal tax returns, K-1s, and business returns

71. Under TRID, zero tolerance applies to:

- A. Origination charges and creditor-required services
- B. Services the borrower can shop for independently
- C. Recording fees and transfer taxes at closing
- D. Property insurance selected by the borrower

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

- A. The lien automatically transfers to the new owner
- B. The buyer must pay the judgment at closing table
- C. The lien must be satisfied to provide clear title
- D. The lien can be ignored if it is over 7 years old

73. The VA Certificate of Eligibility shows:

- A. The property's appraised value for VA purposes
- B. The veteran's entitlement to VA loan benefits
- C. The lender's approval to originate VA loans

D. The borrower's credit score from all bureaus

74. A condo project questionnaire is used to evaluate:

- A. Only the individual borrower's creditworthiness
- B. Only the appraised value of the unit purchased
- C. Only the seller's motivation for the sale
- D. Whether the project meets investor guidelines

75. Under RESPA, the transferring servicer must provide notice:

- A. At least 15 days before the effective transfer date
- B. Within 30 days after the effective transfer date
- C. Only when specifically requested by the borrower
- D. Within 60 days after the effective transfer date

76. A borrower's credit shows a 30-day late from 6 months ago. This:

- A. Automatically disqualifies from all loan programs
- B. Requires a 3-year waiting period before approval
- C. May require explanation but doesn't disqualify
- D. Must be removed from credit before closing

77. Under TRID, a changed circumstance includes:

- A. The lender discovering it underestimated its fees
- B. Information that differs from what borrower provided
- C. The loan officer making calculation errors on fees
- D. The lender deciding to increase its profit margin

78. Rental income for qualification is typically calculated at:

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

79. A VOE shows the borrower received a recent raise. The underwriter should:

- A. Use the new income amount if properly documented
- B. Use only the previous income before the raise
- C. Deny the loan due to recent income changes
- D. Ignore the raise if less than 10% increase

80. Which change triggers a new 3-day waiting period?

- A. A decrease in the amount of cash to close
- B. An increase in the seller credit to borrower
- C. A change from fixed-rate to adjustable-rate loan
- D. A decrease in the total closing costs amount

81. For FHA loans, the upfront MIP is:

- A. A monthly payment included with regular payment
- B. Typically financed into the total loan amount
- C. Waived for all first-time homebuyers applying
- D. Required only for credit scores under 620

82. Gift funds documentation must include:

- A. Only a deposit slip showing funds were deposited
- B. Only verbal confirmation from donor by telephone
- C. Only borrower's statement showing current balance
- D. Gift letter, transfer evidence, and donor's ability

83. Under RESPA, the Annual Escrow Statement must be provided within:

- A. 30 days after the escrow computation year ends

- B. 45 days after the escrow computation year ends
- C. 60 days after the escrow computation year ends
- D. 15 days after the escrow computation year ends

84. A borrower's PITIA is \$1,950 and gross monthly income is \$6,500. The front-end ratio is:

- A. 25%, which is below most program guidelines
- B. 35%, which exceeds most program guidelines
- C. 30%, which is at the typical program limit
- D. 40%, which significantly exceeds guidelines

85. Which income source requires a 2-year documented history?

- A. Base salary from current W-2 employment
- B. Bonus, commission, and self-employment income
- C. Social Security retirement benefits received
- D. Court-ordered child support with documentation

86. A property in a flood zone requires:

- A. Automatic denial of the mortgage application
- B. A 25% reduction in the appraised value

- C. Waiver of escrow for taxes and insurance
- D. Flood insurance as a condition of approval

87. The Loan Estimate expires if borrower doesn't indicate intent within:

- A. 10 business days from date the LE was issued
- B. 30 calendar days from date the LE was issued
- C. 3 business days from date the LE was issued
- D. 5 business days from date the LE was issued

88. A student loan with \$0 IBR payment requires using:

- A. The debt is excluded completely from DTI
- B. The full balance must be paid before closing
- C. A calculated payment of 0.5%-1% of balance
- D. The borrower must exit IBR before approval

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

- A. The borrower must approve the sale in writing
- B. All original terms and conditions remain unchanged
- C. The interest rate increases by at least 0.25%

D. The borrower may renegotiate terms with buyer

90. Refinancing to pay off credit card debt is classified as:

A. A rate-and-term refinance with standard pricing

B. A reverse mortgage with no monthly payments

C. A home equity line with a draw period feature

D. A cash-out refinance with different guidelines

91. Under TRID, recording fees are subject to:

A. Zero tolerance with no increases permitted

B. 5% individual tolerance for each fee charged

C. No tolerance limit allowing any increase

D. 10% cumulative tolerance with similar fees

92. Tax returns showing depreciation expense require:

A. Reducing income by the depreciation amount

B. Ignoring depreciation entirely in calculations

C. Adding depreciation back as non-cash expense

D. Doubling depreciation for accurate income

93. The VA funding fee may be waived for:

- A. All first-time homebuyers using VA benefits
- B. Veterans receiving VA disability compensation
- C. Veterans serving less than two years active
- D. All veterans regardless of circumstances

94. Retirement account assets may be considered:

- A. At full value without any discount applied
- B. Only if liquidated before the application date
- C. Only for borrowers over age 59.5 years
- D. At discounted value accounting for penalties

95. Under ECOA, joint applicants denied must receive:

- A. Individual adverse action notices with reasons
- B. A single notice addressed to both applicants
- C. Only verbal notification of denial decision
- D. Notice only if specifically requested in writing

96. A property inspection reveals foundation cracks. The lender may:

- A. Automatically deny without opportunity to repair
- B. Only require a letter from seller about repairs
- C. Require inspection and repair before closing
- D. Ignore if borrower waives inspection rights

97. The Loan Estimate's "Costs at Closing" section shows:

- A. Only the loan terms including rate and payment
- B. The estimated closing costs and cash to close
- C. Only contact information for parties involved
- D. Only comparison to other loan options available

98. Compensating factors for higher DTI include:

- A. Recent late payments on multiple credit accounts
- B. High utilization rates on all revolving accounts
- C. No verified employment history or income source
- D. Significant reserves, excellent credit, low LTV

99. A borrower asks to exclude a car payment from their application. The MLO should:

- A. Explain all debts must be disclosed accurately
- B. Exclude the debt if it helps borrower qualify

- C. Exclude but note it separately in internal file
- D. Ignore the request without any explanation

100. Under RESPA Section 8, which is a prohibited arrangement?

- A. Paying an employee salary for origination work
- B. Paying an attorney for legal services rendered
- C. Paying referral fees to real estate agents
- D. Paying a broker for loans actually brokered

101. An MLO discovers a colleague is altering income documents. The MLO should:

- A. Discuss with colleague privately first only
- B. Report through appropriate compliance channels
- C. Ignore since it doesn't affect their own loans
- D. Help colleague to maintain good relationship

102. A borrower wants to use anticipated inheritance as down payment. The MLO should:

- A. Include the inheritance if borrower expects it
- B. Estimate the amount and include it in assets
- C. Include half as a conservative compromise

D. Explain only verified current assets can be used

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

- A. Charge different rates based on credit scores
- B. Require documentation from self-employed borrowers
- C. Offer different products based on loan amount
- D. Steer borrowers based on protected characteristics

104. An appraiser asks what value will make the deal work. The MLO should:

- A. Provide the minimum value needed for approval
- B. Suggest adding 10% cushion to contract price
- C. Decline to discuss values and report the request
- D. Provide the contract price as helpful reference

105. A borrower's down payment is a loan from their parents. The MLO should:

- A. Record it as a gift since from family members
- B. Document as a loan affecting DTI calculations
- C. Proceed without disclosure if funds deposited
- D. Ignore if borrower has excellent credit score

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

- A. Maximum focus on loan volume production goals
- B. Speed prioritized over accuracy in processing
- C. Loyalty to employer over consumer protection
- D. Honesty, good faith, and fair dealing always

107. A title company offers the MLO a vacation for referrals. The MLO should:

- A. Decline as this is a prohibited kickback
- B. Accept if disclosed to all borrowers involved
- C. Accept if the value is under \$500 total
- D. Accept only for refinance transactions sent

108. Income documents show different figures on paystubs and W-2. The MLO should:

- A. Use whichever document shows higher income
- B. Ignore if borrower has sufficient income shown
- C. Investigate the discrepancy before proceeding
- D. Average the two documents for final figure

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

- A. Insufficient verified income for loan amount
- B. The racial composition of the neighborhood
- C. Property type ineligible for the loan program
- D. Credit score below minimum program requirement

110. A borrower wants to skip employment verification for quick closing. The MLO should:

- A. Skip verification to provide good service
- B. Skip if borrower signs a liability waiver
- C. Skip for loan amounts under \$200,000
- D. Explain verification cannot be waived

111. An MLO learns a colleague accepts title company gifts for referrals. The MLO should:

- A. Report through appropriate compliance channels
- B. Accept gifts too since it's apparently accepted
- C. Ignore since it doesn't involve their business
- D. Discuss privately and take no further action

112. Documents in a file appear to have been altered. The MLO should:

- A. Proceed if alterations appear minor and harmless
- B. Accept if borrower provides verbal explanation
- C. Report to compliance and await resolution
- D. Use original documents if they can be obtained

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

- A. "Competitive rates available to qualified borrowers"
- B. "Guaranteed approval—we never turn anyone down"
- C. "FHA and VA loans available through our company"
- D. "Call today for current rates on all loan types"

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

- A. Backdate if difference is only a few days
- B. Backdate but note actual date in the file
- C. Backdate if borrower signs responsibility waiver
- D. Refuse as backdating constitutes fraud always

115. Signs of a potential straw buyer arrangement include:

- A. Buyer having detailed knowledge of the property
- B. Buyer attending all inspections and walkthroughs
- C. Buyer providing complete consistent documentation
- D. Buyer having limited knowledge of transaction

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

- A. The number of loans closed during a time period
- B. Customer satisfaction scores from closed loans
- C. The interest rate or terms of the loan originated
- D. The principal amount of loans originated by MLO

117. Borrower provides inconsistent occupancy information. The MLO should:

- A. Accept the most recent statement as accurate
- B. Document concerns and seek clarification
- C. Proceed since occupancy is hard to verify
- D. Let underwriter resolve the discrepancy

118. An MLO has ownership interest in a title company. Regarding AfBA disclosure:

- A. No disclosure required if interest under 10%
- B. Disclosure only for government loan programs
- C. Disclosure is optional at MLO's discretion

D. Written disclosure required with right to shop

119. Application reveals debt not shown on credit report. The MLO should:

A. Include the debt in DTI since borrower disclosed

B. Exclude since credit report is official source

C. Include only half the debt as compromise

D. Ignore debts not appearing on credit report

120. Redlining is the practice of:

A. Requiring extra documentation from self-employed

B. Charging higher rates based on credit risk

C. Denying loans based on neighborhood demographics

D. Offering competitive rates in high-income areas

Answer Key and Explanations

- 1. B.** (5 business days of receiving the written complaint) - Under RESPA Regulation X, servicers must acknowledge a borrower's written notice of error within 5 business days of receipt.
- 2. D.** (An adjustable interest rate that may change over time) - TILA requires special ARM disclosures at or before application, including the Consumer Handbook on Adjustable-Rate Mortgages or similar disclosure explaining how ARMs work.
- 3. A.** (May not use age to deny credit if the applicant is creditworthy) - ECOA prohibits age discrimination. Creditors may consider age only in a credit scoring system that is statistically sound and doesn't disadvantage elderly applicants.
- 4. C.** (State law determining when the borrower becomes obligated) - Under TILA Regulation Z, "consummation" is defined by state law as the point when the consumer becomes contractually obligated on the credit transaction.
- 5. B.** (Is within QM limits since 3.14% is within the threshold) - Points and fees of $\$5,500 \div \$175,000 = 3.14\%$. For loans of this size, QM allows approximately 3% plus adjustments, so this is within limits.
- 6. D.** (A real estate agent paying a lender \$200 per referral) - RESPA Section 8 prohibits referral fees between settlement service providers. Per-referral payments are illegal kickbacks regardless of direction or amount.
- 7. A.** (A second mortgage on the borrower's principal dwelling) - The right of rescission applies to refinances and subordinate liens (like second mortgages) on the borrower's primary residence, not purchase money mortgages.
- 8. C.** (Negative information is added to the consumer's file) - Under FCRA, credit bureaus must notify consumers when negative information is added to their credit file, typically within 30 days.
- 9. B.** (30 days of the creditor taking the adverse action) - ECOA Regulation B requires adverse action notices within 30 days of the creditor taking the adverse action.
- 10. D.** (All applications including those withdrawn or denied) - HMDA requires reporting on all applications, including those approved, denied, withdrawn, and incomplete, to help identify lending patterns.
- 11. A.** (The servicer must refund the surplus within 30 days) - Under RESPA, when an escrow surplus exceeds \$50, the servicer must refund the excess to the borrower within 30 days of the escrow analysis.
- 12. C.** (Fees paid to the creditor for underwriting the loan) - Fees paid to the creditor, including underwriting fees, are subject to zero tolerance under TRID.

- 13. B.** (Varying loan terms based on the borrower's race) - The Fair Housing Act prohibits discrimination based on race in any aspect of residential real estate transactions, including loan terms.
- 14. D.** (Discount points paid by the borrower to reduce rate) - Discount points are included in the finance charge under TILA. Recording fees, voluntary insurance, and late fees are excluded.
- 15. A.** (Within 3 days of application for purchase transactions) - RESPA requires the Special Information Booklet ("Your Home Loan Toolkit") within 3 days of application for purchase transactions.
- 16. C.** (A comprehensive AML compliance program with training) - BSA/AML requires a comprehensive program including written policies, designated compliance officer, independent testing, and ongoing employee training.
- 17. B.** (Information about income from alimony or child support) - ECOA permits creditors to ask about alimony and child support income, though applicants aren't required to disclose it unless they want it considered.
- 18. D.** (A valid changed circumstance occurs after application) - A revised Loan Estimate may only be issued when a valid changed circumstance occurs, not for lender errors or profit decisions.
- 19. A.** (Is available when LTV reaches 80% based on original value) - Borrowers may request PMI cancellation at 80% LTV based on original value. Automatic termination occurs at 78%.
- 20. C.** (The total interest that will be paid over the loan term) - TRID requires disclosure of the total amount of interest the borrower will pay over the loan term on the Loan Estimate.
- 21. B.** (30 business days, extendable to 45 days with notice) - Servicers must respond to notices of error within 30 business days, extendable to 45 days with written notice to the borrower.
- 22. D.** (Consumer must consent after receiving proper disclosure) - The E-Sign Act requires consumers to provide affirmative consent after receiving disclosures about electronic delivery requirements.
- 23. A.** (The creditor may consider information about the non-applicant spouse) - In community property states, creditors may consider the non-applicant spouse's credit history when evaluating community assets.
- 24. C.** ("Perfect neighborhood for Christian families only") - Advertising that indicates preference based on religion violates the Fair Housing Act.
- 25. B.** (At least 3 business days before consummation) - Under TRID, the Closing Disclosure must be received by the borrower at least 3 business days before consummation.
- 26. D.** (Payment to real estate agent solely for referral) - RESPA Section 8 prohibits payments solely for referrals. Payments must be for actual goods or services furnished.
- 27. A.** (Fees for title examination and abstract services) - Title examination fees are generally excluded from the finance charge under TILA when they are bona fide and reasonable.

- 28. C.** (Identifying possible discriminatory lending patterns) - HMDA data collection helps regulators identify potential discriminatory lending patterns and assess community credit needs.
- 29. B.** (Explain information collection and sharing policies) - GLBA privacy notices must explain how the institution collects, uses, and shares nonpublic personal information.
- 30. D.** (An individual who takes applications for compensation) - The SAFE Act defines MLO as an individual who takes applications or negotiates loan terms for compensation.
- 31. A.** (A felony involving fraud or dishonesty in past 7 years) - The SAFE Act bars individuals with felony convictions involving fraud, dishonesty, or breach of trust from licensure.
- 32. C.** (All loan documents, advertisements, and business cards) - The unique identifier must appear on all loan documents, advertisements, business cards, websites, and other materials.
- 33. B.** (By December 31 of each year to maintain the license) - CE must be completed by December 31 annually. Failure results in license expiration.
- 34. D.** (20 hours including federal law, ethics, and products) - SAFE Act pre-licensing requires 20 hours: 3 hours federal law, 3 hours ethics, 2 hours nontraditional products, plus electives.
- 35. A.** (Material misstatement on the license application filed) - Material misstatements or omissions on license applications demonstrate lack of integrity and are grounds for denial.
- 36. C.** (They negotiate loan terms as an independent contractor) - Independent contractor loan processors who negotiate terms must be licensed. Those under supervision performing clerical tasks are exempt.
- 37. B.** (30 days from the date of the second failed attempt) - After first and second failures, the waiting period is 30 days. The 180-day period applies after the third failure.
- 38. D.** (A current valid license with no pending disciplinary actions) - Temporary authority requires a current valid license in good standing with no pending disciplinary actions.
- 39. A.** (Within 30 days of the change in employment status) - MLOs must update NMLS with employment changes within 30 days.
- 40. C.** (Review of books, records, and employee interviews) - State regulators have authority to examine books, records, and interview employees during examinations.
- 41. B.** (Engaging in fraud, dishonesty, or unethical conduct) - Fraud, dishonesty, and unethical conduct are grounds for license revocation under the SAFE Act.
- 42. D.** (Provide consumer protection in case of MLO misconduct) - Surety bonds provide a source of funds for consumer compensation if an MLO engages in misconduct.

- 43. A.** (\$308,000, which is the purchase price minus down payment) - Loan amount = \$385,000 - (\$385,000 × 20%) = \$385,000 - \$77,000 = \$308,000.
- 44. C.** (40%, calculated using housing and all other debts) - Back-end DTI = (\$2,050 + \$1,230) ÷ \$8,200 = \$3,280 ÷ \$8,200 = 40%.
- 45. B.** (6.75%, limited by the 2% initial adjustment cap) - Fully indexed rate = 5.0% + 2.75% = 7.75%. Initial rate is 4.75%. The 2% cap limits the first adjustment to 4.75% + 2% = 6.75%.
- 46. D.** (The funding fee may be waived for disabled veterans) - The VA funding fee is waived for veterans receiving VA disability compensation.
- 47. A.** (3.5% for borrowers with credit scores of 580 or higher) - FHA requires 3.5% down for scores 580+, and 10% down for scores 500-579.
- 48. C.** (An interest-only payment feature for any period) - QM loans cannot have interest-only payments, negative amortization, balloon payments, or terms over 30 years.
- 49. B.** (Liquidity by purchasing loans from originators) - The secondary market purchases loans from originators, providing capital for new lending.
- 50. D.** (688, which is the middle score of the three pulled) - Arranged: 675, 688, 702. The middle score of 688 is used for qualification.
- 51. A.** (80% based on original value with borrower request) - Borrowers may request PMI cancellation at 80% LTV based on original value with good payment history.
- 52. C.** (Be at least 62 years old and occupy the property) - HECM requirements include being 62+ and occupying the property as primary residence. Existing mortgages can be paid off with proceeds.
- 53. B.** (Income-producing rental and investment properties) - The income approach values properties based on their income-producing potential, appropriate for rentals.
- 54. D.** (\$7,500, which correctly grosses up Social Security) - Salary: \$6,000. Grossed-up SS: \$1,200 × 1.25 = \$1,500. Total: \$6,000 + \$1,500 = \$7,500.
- 55. A.** (Be suitable for year-round occupancy by the borrower) - Second homes must be suitable for year-round use and located a reasonable distance from the primary residence.
- 56. C.** (Gross monthly income before taxes and deductions) - DTI ratios use gross monthly income in the denominator.
- 57. B.** (Make a large final payment at the end of the term) - Balloon mortgages feature regular payments with a large final "balloon" payment.

- 58. D.** (6% of the lesser of sale price or appraised value) - FHA limits seller concessions to 6% of the lesser of sale price or appraised value.
- 59. A.** (The lesser of purchase price or appraised value) - $LTV = \text{Loan amount} \div \text{Lesser of purchase price or appraised value}$.
- 60. C.** (Automatic conversion to permanent mortgage financing) - Construction-to-permanent loans automatically convert to permanent financing upon completion.
- 61. B.** (A property in a USDA-designated rural eligible area) - USDA loans require properties in designated rural areas as determined by USDA maps.
- 62. D.** (\$7,222, dividing YTD by 9 months correctly) - $YTD \text{ through September } 30 = 9 \text{ months. Monthly} = \$65,000 \div 9 = \$7,222$.
- 63. A.** (The lender against losses from borrower default) - PMI protects lenders against losses when borrowers default on loans with LTV above 80%.
- 64. C.** (7 years from the completion of the foreclosure) - Conventional guidelines typically require a 7-year waiting period after foreclosure.
- 65. B.** (Only the proposed housing expense - PITIA - payment) - Front-end DTI includes only housing costs: principal, interest, taxes, insurance, and association dues.
- 66. D.** (Has lower payments because no principal is paid) - Interest-only payments are lower because no principal is being repaid during that period.
- 67. A.** (Name, income, SSN, property address, value, loan amount) - TRID defines application as receipt of these six pieces of information.
- 68. C.** (Require written explanation and source documentation) - Large deposits must be sourced with written explanation and supporting documentation.
- 69. B.** (Recording fees and services from lender's provider list) - Recording fees and services the borrower could shop for but selected from the lender's list have 10% cumulative tolerance.
- 70. D.** (Personal tax returns, K-1s, and business returns) - S-Corp owners with significant ownership need personal returns, K-1s, and business returns for income analysis.
- 71. A.** (Origination charges and creditor-required services) - Zero tolerance applies to fees paid to the creditor and services the creditor requires and selects.
- 72. C.** (The lien must be satisfied to provide clear title) - Judgment liens must be satisfied and released before closing to provide clear title.

- 73. B.** (The veteran's entitlement to VA loan benefits) - The COE confirms the veteran's eligibility and available entitlement for VA loans.
- 74. D.** (Whether the project meets investor guidelines) - Condo project reviews evaluate whether the project meets Fannie Mae, Freddie Mac, or FHA requirements.
- 75. A.** (At least 15 days before the effective transfer date) - The transferring servicer must provide notice at least 15 days before the transfer date.
- 76. C.** (May require explanation but doesn't disqualify) - A single 30-day late from 6 months ago requires explanation but doesn't automatically disqualify.
- 77. B.** (Information that differs from what borrower provided) - Valid changed circumstances include new information that differs from what the borrower originally provided.
- 78. D.** (75% of gross rent to account for vacancies) - Rental income is typically calculated at 75% of gross rent to account for vacancy and expenses.
- 79. A.** (Use the new income amount if properly documented) - Documented raises can be used for qualification if verified by the employer.
- 80. C.** (A change from fixed-rate to adjustable-rate loan) - Product changes, prepayment penalty additions, and APR increases above tolerance trigger new waiting periods.
- 81. B.** (Typically financed into the total loan amount) - FHA UFMIP is typically financed into the loan amount as a one-time charge.
- 82. D.** (Gift letter, transfer evidence, and donor's ability) - Complete gift documentation includes gift letter, evidence of transfer, and proof donor had funds.
- 83. A.** (30 days after the escrow computation year ends) - RESPA requires the Annual Escrow Statement within 30 days of the computation year ending.
- 84. C.** (30%, which is at the typical program limit) - Front-end DTI = $\$1,950 \div \$6,500 = 30\%$.
- 85. B.** (Bonus, commission, and self-employment income) - Variable income sources require 2-year history for stability.
- 86. D.** (Flood insurance as a condition of approval) - Properties in FEMA-designated flood zones require flood insurance.
- 87. A.** (10 business days from date the LE was issued) - The LE expires 10 business days from issuance unless the borrower indicates intent to proceed.
- 88. C.** (A calculated payment of 0.5%-1% of balance) - For \$0 payment student loans, a calculated payment must be used for DTI.

- 89. B.** (All original terms and conditions remain unchanged) - When loans are sold, contractual terms remain unchanged.
- 90. D.** (A cash-out refinance with different guidelines) - Refinancing to pay off non-housing debt is classified as cash-out.
- 91. D.** (10% cumulative tolerance with similar fees) - Recording fees fall under the 10% cumulative tolerance category under TRID, not zero tolerance.
- 92. C.** (Adding depreciation back as non-cash expense) - Depreciation is added back because it reduces taxable income but not cash flow.
- 93. B.** (Veterans receiving VA disability compensation) - The VA funding fee is waived for veterans receiving VA disability compensation.
- 94. D.** (At discounted value accounting for penalties) - Retirement accounts count as reserves at discounted value (typically 60-70%).
- 95. A.** (Individual adverse action notices with reasons) - ECOA requires individual notices to all co-applicants.
- 96. C.** (Require inspection and repair before closing) - Structural issues typically require inspection and repair depending on severity.
- 97. B.** (The estimated closing costs and cash to close) - The "Costs at Closing" section shows total closing costs and cash to close.
- 98. D.** (Significant reserves, excellent credit, low LTV) - Strong compensating factors include reserves, credit history, and low LTV.
- 99. A.** (Explain all debts must be disclosed accurately) - All known debts must be disclosed. Excluding debts is misrepresentation.
- 100. C.** (Paying referral fees to real estate agents) - RESPA prohibits referral fees between settlement service providers.
- 101. B.** (Report through appropriate compliance channels) - MLOs must report known fraud through proper channels.
- 102. D.** (Explain only verified current assets can be used) - Only current, verified assets can be used, not anticipated future assets.
- 103. D.** (Steer borrowers based on protected characteristics) - Steering based on protected characteristics violates fair lending laws.

- 104. C.** (Decline to discuss values and report the request) - Appraiser independence rules prohibit target value discussions.
- 105. B.** (Document as a loan affecting DTI calculations) - Borrowed funds are liabilities that must be included in DTI.
- 106. D.** (Honesty, good faith, and fair dealing always) - The SAFE Act requires MLOs to conduct business ethically.
- 107. A.** (Decline as this is a prohibited kickback) - Vacation incentives for referrals are prohibited kickbacks under RESPA.
- 108. C.** (Investigate the discrepancy before proceeding) - Income discrepancies require investigation and resolution.
- 109. B.** (The racial composition of the neighborhood) - Discouraging applications based on neighborhood demographics is illegal.
- 110. D.** (Explain verification cannot be waived) - Employment verification is required and cannot be waived.
- 111. A.** (Report through appropriate compliance channels) - Known RESPA violations must be reported.
- 112. C.** (Report to compliance and await resolution) - Document alteration concerns require compliance review.
- 113. B.** ("Guaranteed approval—we never turn anyone down") - Unsubstantiated guarantee claims violate Regulation N.
- 114. D.** (Refuse as backdating constitutes fraud always) - Backdating documents is fraud regardless of circumstances.
- 115. D.** (Buyer having limited knowledge of transaction) - Straw buyers typically have limited knowledge of the property and transaction, don't attend inspections, and can't answer basic questions about the purchase.
- 116. C.** (The interest rate or terms of the loan originated) - The LO Rule prohibits compensation based on loan terms.
- 117. B.** (Document concerns and seek clarification) - Occupancy inconsistencies require documentation and clarification.
- 118. D.** (Written disclosure required with right to shop) - AfBA disclosures must include the relationship and right to shop.

119. A. (Include the debt in DTI since borrower disclosed) - All known debts must be included regardless of credit report.

120. C. (Denying loans based on neighborhood demographics) - Redlining is denying credit based on neighborhood demographics.