

PRACTICE TEST 13

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

1. Under RESPA, when a servicer determines there is an escrow shortage, the borrower must be given at least how long to pay the shortage?

- A. 6 months to pay the shortage amount in installments
- B. 90 days to pay the full shortage amount immediately
- C. 60 days to pay the shortage amount in installments
- D. 12 months to pay the shortage if it exceeds \$50

2. Under TILA, the term "dwelling" includes which of the following?

- A. Only single-family detached homes with attached garage
- B. Any residential structure including mobile homes and condos
- C. Only properties with a minimum of four bedrooms total
- D. Only properties located in designated urban areas

3. Under ECOA, which applicant characteristic may be considered in credit decisions?

- A. The applicant's religious affiliation and church membership
- B. The applicant's plans for having children in the future
- C. The applicant's immigration status if related to residency
- D. The applicant's political party affiliation and activities

4. Under TRID, the Loan Estimate must include an itemization of:

- A. All closing costs organized by type and recipient
- B. Only the monthly principal and interest payment
- C. Only the interest rate without annual percentage rate
- D. Only the loan term without the amortization details

5. A first-lien mortgage has an APR that exceeds APOR by 2.0%. This loan is classified as:

- A. A standard conventional mortgage with no restrictions
- B. A Qualified Mortgage with safe harbor protections
- C. A HOEPA high-cost mortgage requiring counseling
- D. A higher-priced mortgage loan with special requirements

6. Under RESPA Section 8(c), which payment is specifically permitted?

- A. Payment to a real estate agent for referring a borrower

- B. Payment of salary or compensation to an employee
- C. Payment to a title company for each referral received
- D. Payment of gifts to appraisers for repeat business

7. Under TILA, which information must be provided for ARM loans?

- A. Only the initial interest rate for the first year
- B. Only the maximum monthly payment possible on loan
- C. The index, margin, and how rate adjustments are calculated
- D. Only the fully indexed rate at the time of application

8. Under FCRA, consumers have the right to:

- A. Dispute inaccurate information and request investigation
- B. Demand immediate removal of all negative information
- C. Receive unlimited free credit reports at any time
- D. Prevent any entity from accessing their credit file

9. Under HMDA, which data element must be collected and reported?

- A. The borrower's religious affiliation and membership
- B. The borrower's political party affiliation status

- C. The borrower's dietary preferences and restrictions
- D. The borrower's race, ethnicity, and sex information

10. Under RESPA, the initial escrow statement must be provided:

- A. Within 60 days after the loan closing date occurs
- B. At closing or within 45 days after loan settlement
- C. Only when the borrower specifically requests it
- D. Within 90 days after the first payment is made

11. Under the Fair Housing Act, which practice is considered discrimination?

- A. Requiring income verification from all loan applicants
- B. Requiring larger down payments for lower credit scores
- C. Refusing to lend based on the borrower's national origin
- D. Charging higher rates to borrowers with limited credit

12. Under TILA, the APR calculation must include:

- A. Prepaid finance charges like points and origination fees
- B. Only the note interest rate without additional fees
- C. Only late fees that may be charged during the loan

D. Only the monthly principal and interest payment

13. Under ECOA, a creditor must provide an adverse action notice that includes:

- A. Only the date of denial and the creditor's name
- B. Only the applicant's complete credit history
- C. Only the credit score used in making the decision
- D. Specific reasons for denial or right to request reasons

14. Under TRID, which fee is NOT subject to the 10% tolerance category?

- A. Title insurance when borrower shops from lender's list
- B. Origination charges paid directly to the creditor
- C. Recording fees charged by the local government office
- D. Survey fees when borrower selects provider from list

15. Under the Homeowners Protection Act, final PMI termination must occur when:

- A. The borrower requests cancellation at 80% LTV ratio
- B. The loan reaches the midpoint of the amortization period
- C. LTV reaches 77% based on original property value
- D. The borrower has made 48 consecutive on-time payments

16. Under RESPA, a "settlement service" includes all of the following EXCEPT:

- A. Interior decorating services after closing is complete
- B. Title searches and title insurance provided at closing
- C. Services provided by an attorney at the settlement
- D. Credit reports obtained for the loan application

17. Under the BSA/AML, structuring transactions refers to:

- A. Organizing loan documents in a specific order for file
- B. Creating an amortization schedule for the borrower
- C. Arranging the closing in multiple locations on same day
- D. Breaking transactions to avoid reporting requirements

18. Under ECOA Regulation B, which factor is PROHIBITED?

- A. The applicant's debt-to-income ratio from verified data
- B. The applicant's marital status in a non-community state
- C. The applicant's credit history and payment record
- D. The applicant's employment history with current employer

19. Under TRID, which change triggers a new 3-day waiting period?

- A. A decrease in the estimated closing costs from LE
- B. An increase in the seller credit to the borrower
- C. An increase in APR exceeding tolerance on fixed loan
- D. A decrease in the cash required to close at settlement

20. Under the Gramm-Leach-Bliley Act, the annual privacy notice requirement:

- A. May be satisfied if certain conditions are met
- B. Must always be mailed to customers every year
- C. Applies only to customers who have been denied credit
- D. Is required only for customers with loan balances

21. Under HMDA, covered institutions must report data to:

- A. Only the state regulatory agency in their home state
- B. Only the Federal Trade Commission for review
- C. Only the local housing authority in each county
- D. The appropriate federal regulatory agency annually

22. Under RESPA, a Qualified Written Request must:

- A. Be submitted verbally by telephone to the servicer

- B. Be in writing and include information to identify account
- C. Be submitted through the borrower's attorney only
- D. Include payment for the servicer's research costs

23. Under the E-Sign Act, which requirement must be met?

- A. All electronic records must be printed within 30 days
- B. Electronic signatures are only valid for refinances
- C. Consumer must consent after receiving proper disclosure
- D. Electronic records must be notarized by licensed notary

24. Under TILA, which transaction has a 3-day right of rescission?

- A. A home equity line of credit on a primary residence
- B. A purchase money mortgage on a primary residence
- C. A mortgage on property used for rental purposes only
- D. A first mortgage on a borrower's vacation property

25. Under the Dodd-Frank Act, lenders must assess the borrower's:

- A. Religious affiliation before making a lending decision
- B. Political party membership for demographic purposes

- C. Family size and plans for future children in home
- D. Ability to repay the mortgage loan being offered

26. Under RESPA Section 10, an escrow account may include cushion of:

- A. Three months of total annual escrow disbursements
- B. One-sixth of total annual escrow disbursements
- C. One-fourth of total annual escrow disbursements
- D. One month of total annual escrow disbursements

27. Under ECOA, information about race and ethnicity:

- A. Must never be collected by any creditor for any reason
- B. Is prohibited from being used in credit decisions
- C. Must be collected for government monitoring purposes
- D. May be used as a factor in credit scoring systems

28. Under the Fair Housing Act, blockbusting refers to:

- A. Inducing sale by claiming neighborhood is changing
- B. Refusing to make loans in certain geographic areas
- C. Directing buyers to areas based on protected class

D. Advertising property with discriminatory language

29. Under TRID, the Special Information Booklet must be provided:

- A. At closing for all residential mortgage transactions
- B. Only when specifically requested by the borrower
- C. Within 7 days of application for all transactions
- D. Within 3 days of application for purchase transactions

30. Under the SAFE Act, which individual is required to be licensed?

- A. An employee of a federally chartered credit union
- B. An employee taking applications at a mortgage company
- C. An attorney providing legal advice on mortgage documents
- D. A real estate agent referring clients to mortgage lenders

31. Under the SAFE Act, which felony conviction creates a permanent bar to licensure?

- A. Any felony conviction regardless of age or nature
- B. A felony for simple assault from over 10 years ago
- C. A felony involving financial fraud within past 7 years
- D. A misdemeanor involving dishonesty from 5 years ago

32. The NMLS Consumer Access portal allows the public to:

- A. View MLO licensing status and disciplinary actions
- B. Access individual borrower credit reports and scores
- C. View complete loan files for closed transactions
- D. Access servicer escrow account balances for loans

33. Under the SAFE Act, an individual with a revoked license must wait:

- A. 1 year before reapplying for licensure in any state
- B. 3 years before reapplying for licensure in any state
- C. 5 years before reapplying for licensure in any state
- D. The period specified by the state that revoked license

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

- A. 15 hours of only real estate appraisal training
- B. 3 hours of federal law and 3 hours of ethics
- C. Only 10 hours of general mortgage education
- D. Only 25 hours of state-specific regulations

35. Under state regulatory authority, which is grounds for license suspension?

- A. Having previously worked for multiple employers
- B. Living in a state different from the licensing state
- C. Failure to maintain a valid surety bond as required
- D. Having a credit score below the national average

36. Under the SAFE Act, the unique identifier:

- A. Remains with the MLO throughout their career
- B. Changes each time the MLO changes employers
- C. Is valid for only 5 years before renewal required
- D. Applies only to state-licensed MLOs not registered

37. Under the SAFE Act, which activity does NOT require an MLO license?

- A. Negotiating loan terms with borrowers for compensation
- B. Taking residential mortgage loan applications at bank
- C. Offering loan products to potential borrower clients
- D. Performing administrative tasks under direct supervision

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

- A. March 31 of each year following license issuance

- B. December 31 of each year to maintain the license
- C. June 30 of each year following license issuance
- D. The anniversary date of original license issuance

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

- A. Originate without completing pre-licensing education
- B. Work without sponsorship from any mortgage company
- C. Originate in a new state during license application
- D. Avoid background checks for the first 6 months

40. Under state regulatory authority, records must be retained for:

- A. At least 3 years or as required by state law
- B. At least 1 year after the loan is paid off
- C. Only 6 months after the loan closing date
- D. Only until the loan is sold on secondary market

41. Under the SAFE Act, which individual must be registered?

- A. An MLO employed by a non-depository mortgage company
- B. An MLO employed by a mortgage broker company

- C. A real estate agent referring clients to lenders
- D. An MLO employed by a federally chartered bank

42. Under the SAFE Act model state law, examination authority includes:

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

43. A borrower purchases a home for \$520,000 with 25% down. The loan amount is:

- A. \$130,000, which represents the required down payment
- B. \$468,000, which assumes only a 10% down payment
- C. \$390,000, which is the purchase price minus down payment
- D. \$520,000, which represents the full purchase price

44. A borrower's gross monthly income is \$11,500. Their PITIA is \$2,875 and other debts total \$1,725. The back-end DTI is:

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

45. A 5/5 ARM has an initial rate of 5.25%, margin of 2.25%, and caps of 2/2/5. At first adjustment, the index is 4.0%. The new rate is:

- A. 5.25%, remaining at the initial rate unchanged
- B. 6.25%, which is the fully indexed rate calculated
- C. 4.0%, using only the index without any margin
- D. 7.25%, limited by the 2% periodic adjustment cap

46. Under FHA guidelines, which statement about MIP is TRUE?

- A. MIP is waived for all first-time homebuyers applying
- B. MIP includes both upfront and annual premium amounts
- C. MIP is only required for loans with LTV below 80%
- D. MIP is automatically canceled at 78% LTV ratio

47. Under VA loan guidelines, the maximum guaranty amount:

- A. Is the same fixed amount for all properties nationwide
- B. Provides full guaranty for any loan amount requested
- C. Varies by county and is tied to conforming loan limits
- D. Applies only to veterans with combat service record

48. Which of the following would NOT disqualify a loan from QM status?

- A. A 43% debt-to-income ratio for the borrower
- B. Negative amortization that increases the balance
- C. An interest-only payment period of any duration
- D. Points and fees that exceed 3% of the loan amount

49. Fannie Mae and Freddie Mac are considered:

- A. Primary market lenders that originate mortgage loans
- B. Federal regulatory agencies that oversee lenders
- C. Title insurance companies that insure loan closings
- D. Government-sponsored enterprises in secondary market

50. A borrower has credit scores of 655, 670, and 685. The qualifying score is:

- A. 685, which is the highest score from all bureaus
- B. 670, which is the middle score of the three pulled
- C. 655, which is the lowest score from all bureaus
- D. 670, which is calculated as the average score

51. Under conventional guidelines, an investment property typically requires:

- A. 3% minimum down payment for any property type

- B. 10% minimum down payment for single-family only
- C. 15-25% minimum down payment depending on units
- D. 5% minimum down payment for any property type

52. A HECM reverse mortgage borrower receives funds through:

- A. Lump sum, line of credit, monthly payments, or combination
- B. Only monthly payments over the remaining life expectancy
- C. Only a lump sum distribution at the time of closing
- D. Only a line of credit with no other options available

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

- A. Older residential properties with extensive depreciation
- B. Income-producing rental properties in urban areas
- C. Properties in areas with many comparable sales available
- D. Unique or special-purpose properties with few comparables

54. A borrower earns \$5,800 monthly salary plus \$600 monthly car allowance. The car allowance is taxable. Total qualifying income is:

- A. \$5,800, which excludes the car allowance entirely
- B. \$6,400, which includes the full car allowance amount

- C. \$6,200, which includes only half the car allowance
- D. \$5,950, which applies a 25% reduction to allowance

55. Under conventional guidelines, a primary residence must:

- A. Be located within 100 miles of borrower's employment
- B. Be occupied by the borrower for at least 200 days yearly
- C. Be occupied by the borrower as their principal dwelling
- D. Have been owned by the borrower for at least 1 year

56. The housing expense ratio (front-end DTI) includes:

- A. Principal, interest, taxes, insurance, and HOA dues
- B. All monthly debts including credit cards and car loans
- C. Only the principal and interest portion of payment
- D. All monthly expenses including utilities and food

57. A buydown mortgage features:

- A. An interest rate that increases annually over the term
- B. Negative amortization throughout the entire loan term
- C. A balloon payment due at the end of the loan term

D. A temporarily reduced rate that increases over time

58. Under conventional guidelines, seller concessions on primary residence with 10% down are limited to:

- A. 3% of the lesser of sale price or appraised value
- B. 6% of the lesser of sale price or appraised value
- C. 9% of the lesser of sale price or appraised value
- D. No limit on seller concessions is established

59. The combined loan-to-value (CLTV) ratio includes:

- A. Only the first mortgage in the calculation used
- B. Only the appraised value without purchase price
- C. All mortgages secured by the property in calculation
- D. Only second mortgages without the first mortgage

60. A bridge loan is typically used to:

- A. Finance the gap between selling one home and buying another
- B. Provide permanent financing for a 30-year term loan
- C. Finance construction of new residential properties only
- D. Provide reverse mortgage financing for seniors

61. Under USDA guidelines, the property must:

- A. Be located in a major metropolitan area with population
- B. Be used primarily for agricultural production purposes
- C. Meet minimum size requirements of at least 5 acres
- D. Be located in a USDA-eligible rural area designated

62. A borrower's pay stub shows YTD earnings of \$84,000 as of October 31. Monthly income is:

- A. \$7,000, dividing YTD by 12 months incorrectly
- B. \$8,400, dividing YTD by 10 months correctly
- C. \$10,500, dividing YTD by 8 months incorrectly
- D. \$6,462, dividing YTD by 13 months incorrectly

63. Mortgage insurance premium (MIP) on FHA loans:

- A. Is only the upfront premium with no annual premium
- B. Protects the borrower against property value decline
- C. Protects the lender against borrower default on loan
- D. Is automatically canceled when LTV reaches 80%

64. After a short sale, a conventional loan typically requires waiting:

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

65. The back-end DTI ratio includes:

- A. Only the proposed housing expense payment amount
- B. Only existing rent payment before new home purchase
- C. All monthly expenses including utilities and food
- D. All monthly debt payments including housing payment

66. An adjustable-rate mortgage (ARM) typically has:

- A. A fixed rate for the entire term of the loan
- B. Periodic rate adjustments based on an index plus margin
- C. Rates that only decrease and never increase over time
- D. No caps limiting how much the rate may change

67. Under TRID, an application is considered received when the lender has:

- A. A signed authorization to obtain the credit report
- B. Payment of the application fee from the borrower
- C. The six pieces of information that define application

D. A complete application with all verifying documents

68. A borrower's bank statement shows multiple cash deposits totaling \$5,000. The MLO should:

A. Require written explanation and source documentation

B. Ignore if total deposits are within normal patterns

C. Accept verbal explanation from borrower as adequate

D. Proceed without questions if credit score is high

69. Under TRID, services the borrower can shop for have what tolerance?

A. Zero tolerance with no increases permitted at all

B. 5% individual tolerance for each specific service

C. No tolerance limit allowing any amount of increase

D. 10% cumulative tolerance when using lender's list

70. A borrower provides 1099 income from multiple clients. Documentation should include:

A. Only verbal confirmation of income from each client

B. Two years of tax returns showing consistent income

C. Only the most recent 1099 from the largest client

D. Only bank statements showing deposit amounts

71. Under TRID, transfer taxes are subject to:

- A. Zero tolerance with no increases permitted from LE
- B. 10% cumulative tolerance with similar category fees
- C. No tolerance, meaning any amount of increase allowed
- D. 5% individual tolerance for each transfer tax

72. A title commitment reveals an easement across the property. The MLO should:

- A. Ensure the borrower understands any impact on use
- B. Ignore the easement if property value is sufficient
- C. Require the easement to be removed before closing
- D. Cancel the transaction due to the title exception

73. For an FHA loan, the appraisal must:

- A. Be completed by any licensed appraiser available
- B. Use only the income approach for the valuation
- C. Ignore any property condition issues observed
- D. Include assessment of minimum property standards

74. A borrower is purchasing a co-op. Financing typically requires:

- A. Only standard conventional financing guidelines
- B. Review of the co-op corporation's financial health
- C. No down payment regardless of credit score
- D. Only FHA financing for all co-op purchases

75. Under RESPA, the borrower must receive the servicing disclosure:

- A. Only when the loan is transferred to new servicer
- B. Only when specifically requested by the borrower
- C. At application or within 3 days of application
- D. At closing as part of the closing documents

76. A borrower's credit report shows a disputed account. The underwriter should:

- A. Evaluate the dispute and determine impact on approval
- B. Automatically deny the loan due to the dispute
- C. Ignore the dispute if the borrower has good credit
- D. Require the dispute to be resolved before closing

77. Under TRID, a valid changed circumstance does NOT include:

- A. A natural disaster affecting the subject property
- B. Information differing from what borrower provided
- C. The borrower changing the loan amount requested
- D. The lender discovering it underestimated its fees

78. Rental income from a property being vacated must:

- A. Always be excluded from qualifying income entirely
- B. Include lease agreement and evidence of rental history
- C. Be included at 100% of the gross rent amount
- D. Only be included if the property has been rented 2 years

79. A borrower's VOE shows they are paid hourly with varying hours. Income should be calculated:

- A. Using only the most recent pay period hours worked
- B. Using only the maximum hours possible per week
- C. By averaging hours over a reasonable time period
- D. By ignoring overtime and using only regular hours

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

- A. An increase in cash to close from the Loan Estimate
- B. A change from adjustable-rate to fixed-rate loan
- C. Addition of a prepayment penalty to loan terms
- D. APR increase of 0.20% on an adjustable-rate loan

81. For VA loans, the Certificate of Eligibility confirms:

- A. The property meets VA minimum property standards
- B. The lender's approval to originate VA loan products
- C. The borrower's credit score meets VA requirements
- D. The veteran's entitlement to VA loan guaranty benefits

82. Gift funds from an employer require:

- A. Only a gift letter from the employer providing funds
- B. Documentation that funds are truly a gift not a loan
- C. No documentation since it comes from employer
- D. Automatic exclusion from allowable fund sources

83. Under RESPA, the escrow analysis must be conducted:

- A. Every 6 months regardless of loan performance

- B. Only when the borrower specifically requests it
- C. At least once every 12-month computation period
- D. Only when the loan is transferred to new servicer

84. A borrower's PITIA is \$3,200 and gross monthly income is \$10,000. The front-end ratio is:

- A. 32%, which is within most conventional guidelines
- B. 40%, which exceeds most conventional guidelines
- C. 25%, which is below most conventional guidelines
- D. 45%, which significantly exceeds all guidelines

85. Which asset source requires documentation of seasoning?

- A. Savings account with consistent monthly deposits
- B. Checking account with regular payroll deposits
- C. Stock account held for more than 60 days shown
- D. Large deposit inconsistent with income patterns

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

- A. Any area that has experienced flooding in past
- B. A FEMA-designated Special Flood Hazard Area

- C. Any coastal area within 50 miles of the ocean
- D. Any area with annual rainfall over 50 inches

87. The Loan Estimate must be provided within:

- A. 24 hours of receiving a complete loan application
- B. 7 business days of receiving the six application items
- C. 3 business days of receiving the six application items
- D. 10 business days of receiving the six application items

88. A borrower's student loans are in deferment. For DTI purposes:

- A. Use a calculated payment based on loan balance
- B. Exclude the loans entirely from the calculation
- C. Require the borrower to exit deferment first
- D. Use the full loan balance as monthly payment

89. When a loan is sold, the borrower must receive notice:

- A. Only when the borrower specifically requests it
- B. Before any change in terms can take effect
- C. Within 30 days of the borrower's first payment

D. At least 15 days before the transfer effective date

90. A borrower wants to refinance to lower their rate with no cash out. This is:

- A. A cash-out refinance with higher LTV restrictions
- B. A rate-and-term refinance with standard guidelines
- C. A home equity line of credit with draw period
- D. A reverse mortgage with no monthly payments

91. Under TRID, homeowner's insurance selected by borrower has:

- A. Zero tolerance with no increases permitted from LE
- B. 10% cumulative tolerance with other category fees
- C. No tolerance allowing any amount of increase
- D. 5% individual tolerance for the specific charge

92. Tax returns showing business losses require:

- A. Deducting losses from other income sources
- B. Ignoring losses entirely in calculations
- C. Adding losses back as non-cash expenses
- D. Automatic denial of the loan application

93. The VA funding fee varies based on:

- A. The borrower's credit score from all bureaus
- B. The property type and location in the state
- C. The borrower's age at the time of application
- D. Down payment amount and prior VA loan use

94. Retirement account distributions may be used as income if:

- A. The borrower is currently employed full-time
- B. The distributions are consistent and likely to continue
- C. The account balance exceeds \$100,000 minimum
- D. The borrower is under age 59.5 years old

95. Under ECOA, a creditor must retain records of applications for:

- A. 12 months from the date of the application
- B. 36 months from the date of the application
- C. 25 months from the date of the application
- D. 60 months from the date of the application

96. A property has an unpermitted addition. The lender may:

- A. Require the addition to be properly permitted
- B. Ignore the issue if the value is sufficient
- C. Automatically deny without further review
- D. Only require a letter from the borrower

97. The Closing Disclosure must itemize:

- A. Only the interest rate and monthly payment
- B. Only the loan amount and property address
- C. Only the contact information for all parties
- D. All actual closing costs and loan terms

98. A borrower's DTI exceeds guidelines. The file may be approved with:

- A. No additional requirements or documentation
- B. Documented compensating factors justifying approval
- C. A letter from the borrower explaining their debts
- D. Automatic denial without further consideration

99. A borrower asks the MLO to increase their stated income on the application. The MLO should:

- A. Increase the income if it helps borrower qualify

- B. Increase but note actual income in file notes
- C. Refuse as this constitutes mortgage fraud
- D. Increase if borrower signs responsibility waiver

100. Under RESPA Section 8, a marketing services agreement:

- A. Is permissible if for fair market value services
- B. Is always prohibited regardless of any circumstances
- C. Requires no disclosure to any borrowers involved
- D. Permits unlimited payments for referral leads

101. An MLO learns a borrower provided a fake pay stub. The MLO should:

- A. Ignore if the borrower has good credit score
- B. Accept if borrower provides verbal explanation
- C. Proceed if rest of file is adequately documented
- D. Report to compliance and not proceed with loan

102. A borrower wants to list their cousin as occupying a rental property. The MLO should:

- A. Accept the statement without any verification
- B. Explain that occupancy must be accurately stated

- C. Allow if the cousin pays any amount of rent
- D. Ignore occupancy since it's hard to verify

103. Under fair lending laws, pricing differences must be based on:

- A. The racial composition of the borrower's neighborhood
- B. The national origin of the borrower on application
- C. Legitimate credit risk factors and loan characteristics
- D. The religious affiliation of the borrower indicated

104. An appraiser tells the MLO the value will be exactly what is needed. The MLO should:

- A. Recognize this may indicate appraiser independence issue
- B. Thank the appraiser for their cooperation on file
- C. Request the appraiser add additional value cushion
- D. Provide additional comparable sales to support value

105. A borrower's down payment funds came from a cash advance. The MLO should:

- A. Record it as gift funds to simplify documentation
- B. Ignore the source if funds are in the account
- C. Accept if borrower provides verbal explanation

D. Document as borrowed funds affecting DTI

106. Under the SAFE Act, an MLO who is aware of fraud must:

- A. Ignore if it doesn't directly affect their loans
- B. Report through appropriate compliance channels
- C. Discuss privately with the person committing fraud
- D. Wait to see if anyone else reports the conduct

107. A settlement agent offers the MLO sports tickets for referrals. The MLO should:

- A. Accept if tickets are valued under \$50 total
- B. Accept if disclosed to the borrower at closing
- C. Decline as this is a prohibited kickback under RESPA
- D. Accept only for refinance transactions referred

108. A borrower's employment verification conflicts with pay stubs. The MLO should:

- A. Investigate the discrepancy before proceeding
- B. Use whichever shows the higher income amount
- C. Ignore if borrower has sufficient other income
- D. Average the two amounts for final calculation

109. Under ECOA, an MLO may NOT:

- A. Require documentation from self-employed borrowers
- B. Charge different rates based on documented credit risk
- C. Offer different products based on loan amount requested
- D. Discourage applications based on familial status

110. A borrower requests that the MLO not run credit until told. The MLO should:

- A. Pull credit immediately since application is pending
- B. Respect the request and wait for authorization
- C. Pull credit anyway to expedite the application
- D. Ignore the request since credit is always required

111. An MLO knows a colleague is splitting fees with a real estate agent. The MLO should:

- A. Accept payments too since it seems to be allowed
- B. Ignore since it doesn't affect their own loans
- C. Report through appropriate compliance channels
- D. Discuss privately and take no further action

112. Documents in a loan file appear to be photocopied signatures. The MLO should:

- A. Request original documents and verify authenticity
- B. Accept if the documents otherwise appear correct
- C. Proceed if borrower provides verbal explanation
- D. Ignore if borrower has excellent credit history

113. Under Regulation N (MAP Rule), which claim is PROHIBITED?

- A. "Competitive rates available to qualified borrowers"
- B. "FHA and VA loans available through our company"
- C. "Call today for current rates on all loan types"
- D. "Bad credit? No problem! Guaranteed approval"

114. A borrower asks the MLO to change the contract date on documents. The MLO should:

- A. Change the date if difference is less than a week
- B. Refuse as altering documents constitutes fraud
- C. Change but note the actual date in file notes
- D. Change if borrower signs a waiver of liability

115. Red flags for occupancy fraud include:

- A. Borrower providing detailed plans for using property

- B. Property located close to borrower's current workplace
- C. Short distance between current and new properties
- D. Borrower purchasing property as clearly investment

116. Under the Loan Originator Rule, dual compensation is prohibited meaning:

- A. An MLO cannot receive compensation from both lender and borrower
- B. An MLO cannot work for two lenders at the same time
- C. An MLO cannot process loans for two borrowers at once
- D. An MLO cannot receive both salary and commission

117. A borrower provides bank statements with account numbers redacted. The MLO should:

- A. Accept the statements if balances are visible clearly
- B. Accept since privacy concerns are valid reasons
- C. Proceed if other statements show account numbers
- D. Request unredacted statements for proper verification

118. An MLO discovers an undisclosed debt during processing. The MLO should:

- A. Ignore if debt is not on the credit report pulled
- B. Include the debt in DTI and recalculate qualification

- C. Exclude since borrower did not initially disclose it
- D. Only include half the debt as a compromise

119. Predatory lending practices include:

- A. Offering competitive rates to qualified borrowers
- B. Requiring income verification for all applicants
- C. Charging excessive fees and steering to high-cost loans
- D. Explaining all loan terms clearly to borrowers

120. Under fair lending, the Equal Credit Opportunity Act prohibits:

- A. Discrimination based on race, color, religion, and more
- B. Requiring credit reports for loan applications
- C. Charging different rates based on credit scores
- D. Requiring income documentation from applicants

Answer Key and Explanations

- 1. D.** (12 months to pay the shortage if it exceeds \$50) - Under RESPA, when an escrow shortage exceeds \$50, the servicer must allow the borrower to repay the shortage over at least 12 months rather than requiring immediate payment.
- 2. B.** (Any residential structure including mobile homes and condos) - Under TILA, "dwelling" is broadly defined to include any residential structure, including mobile homes, manufactured homes, condominiums, and cooperative units.
- 3. C.** (The applicant's immigration status if related to residency) - ECOA permits consideration of immigration status when it relates to the creditor's ability to enforce the contract, such as residency status affecting legal rights.
- 4. A.** (All closing costs organized by type and recipient) - The Loan Estimate must provide an itemized list of all closing costs, organized by category and showing the recipient of each fee.
- 5. D.** (A higher-priced mortgage loan with special requirements) - A first-lien loan with APR exceeding APOR by 1.5% or more is classified as an HPML. A 2.0% difference triggers HPML requirements.
- 6. B.** (Payment of salary or compensation to an employee) - RESPA Section 8(c)(2) specifically permits employers to pay employees compensation, including salary and bonuses, for loan production work.
- 7. C.** (The index, margin, and how rate adjustments are calculated) - TILA requires ARM disclosures to explain how the rate is determined, including the index, margin, adjustment periods, and caps.
- 8. A.** (Dispute inaccurate information and request investigation) - FCRA gives consumers the right to dispute inaccurate information, and credit bureaus must investigate within 30 days.
- 9. D.** (The borrower's race, ethnicity, and sex information) - HMDA requires collection and reporting of demographic information including race, ethnicity, and sex for government monitoring purposes.
- 10. B.** (At closing or within 45 days after loan settlement) - Under RESPA, the initial escrow statement must be provided at closing or within 45 days after settlement.
- 11. C.** (Refusing to lend based on the borrower's national origin) - The Fair Housing Act prohibits discrimination based on national origin in all aspects of residential real estate transactions.
- 12. A.** (Prepaid finance charges like points and origination fees) - The APR must include prepaid finance charges such as points, origination fees, and other charges paid to obtain credit.
- 13. D.** (Specific reasons for denial or right to request reasons) - ECOA requires adverse action notices to include specific reasons for denial or inform applicants of their right to request reasons within 60 days.

- 14. B.** (Origination charges paid directly to the creditor) - Origination charges are zero-tolerance fees, not 10% tolerance. Recording fees and services from the lender's list have 10% tolerance.
- 15. B.** (The loan reaches the midpoint of the amortization period) - Under HPA, final PMI termination must occur at the midpoint of the amortization period, regardless of LTV.
- 16. A.** (Interior decorating services after closing is complete) - Settlement services under RESPA include title, credit, appraisal, and legal services. Interior decorating is not a settlement service.
- 17. D.** (Breaking transactions to avoid reporting requirements) - Structuring is the illegal practice of breaking up transactions to avoid BSA reporting thresholds, such as the \$10,000 CTR requirement.
- 18. B.** (The applicant's marital status in a non-community state) - In non-community property states, marital status cannot be used as a factor in credit decisions under ECOA.
- 19. C.** (An increase in APR exceeding tolerance on fixed loan) - APR increases exceeding 1/8% on fixed-rate loans trigger a new 3-day waiting period under TRID.
- 20. A.** (May be satisfied if certain conditions are met) - The Gramm-Leach-Bliley Act allows institutions to skip annual privacy notices if certain conditions are met, such as not sharing information.
- 21. D.** (The appropriate federal regulatory agency annually) - HMDA data must be reported to the appropriate federal regulatory agency on an annual basis.
- 22. B.** (Be in writing and include information to identify account) - A QWR must be written and include information sufficient to identify the borrower's account.
- 23. C.** (Consumer must consent after receiving proper disclosure) - E-Sign requires affirmative consent after the consumer receives disclosures about hardware/software requirements.
- 24. A.** (A home equity line of credit on a primary residence) - The right of rescission applies to HELOCs and other non-purchase transactions on the borrower's primary residence.
- 25. D.** (Ability to repay the mortgage loan being offered) - The Dodd-Frank ATR rule requires lenders to verify the borrower's ability to repay the loan.
- 26. B.** (One-sixth of total annual escrow disbursements) - RESPA Section 10 permits a maximum escrow cushion of 1/6 (two months) of total annual disbursements.
- 27. C.** (Must be collected for government monitoring purposes) - ECOA requires creditors to collect race and ethnicity information for government monitoring but prohibits using it in credit decisions.
- 28. A.** (Inducing sale by claiming neighborhood is changing) - Blockbusting is the illegal practice of inducing property owners to sell by suggesting the neighborhood is changing due to protected class characteristics.

- 29. D.** (Within 3 days of application for purchase transactions) - RESPA requires the Special Information Booklet within 3 business days of application for purchase transactions.
- 30. B.** (An employee taking applications at a mortgage company) - MLOs at non-depository mortgage companies must be state-licensed. Credit union employees are registered, not licensed.
- 31. C.** (A felony involving financial fraud within past 7 years) - The SAFE Act bars individuals with felony convictions involving fraud, dishonesty, or breach of trust within the past 7 years.
- 32. A.** (View MLO licensing status and disciplinary actions) - NMLS Consumer Access allows the public to view MLO licensing status, employment history, and disciplinary actions.
- 33. D.** (The period specified by the state that revoked license) - Waiting periods after revocation are determined by state law and may vary by jurisdiction.
- 34. B.** (3 hours of federal law and 3 hours of ethics) - SAFE Act pre-licensing requires 20 hours including 3 hours federal law, 3 hours ethics, and 2 hours nontraditional products.
- 35. C.** (Failure to maintain a valid surety bond as required) - Failure to maintain required surety bond is grounds for license suspension or revocation.
- 36. A.** (Remains with the MLO throughout their career) - The unique identifier is permanently assigned and follows the MLO throughout their career, regardless of employer changes.
- 37. D.** (Performing administrative tasks under direct supervision) - Administrative and clerical tasks performed under supervision do not require an MLO license.
- 38. B.** (December 31 of each year to maintain the license) - CE must be completed by December 31 annually to maintain the license for the following year.
- 39. C.** (Originate in a new state during license application) - Temporary authority allows MLOs to originate in a new state for up to 120 days while their license application is pending.
- 40. A.** (At least 3 years or as required by state law) - Record retention requirements are typically at least 3 years, though state law may require longer periods.
- 41. D.** (An MLO employed by a federally chartered bank) - MLOs at federally chartered banks and credit unions are registered through NMLS, not state-licensed.
- 42. B.** (Review of records, documents, and employee interviews) - State regulatory examination authority includes reviewing all records and documents and interviewing employees.
- 43. C.** (\$390,000, which is the purchase price minus down payment) - Loan amount = \$520,000 - $(\$520,000 \times 25\%) = \$520,000 - \$130,000 = \$390,000$.

- 44. A.** (40%, calculated using housing and all other debts) - Back-end DTI = $(\$2,875 + \$1,725) \div \$11,500 = \$4,600 \div \$11,500 = 40\%$.
- 45. B.** (6.25%, which is the fully indexed rate calculated) - Fully indexed rate = Index + Margin = $4.0\% + 2.25\% = 6.25\%$. The initial rate is 5.25%, and the 2% cap would allow up to 7.25%. Since 6.25% is below the cap, the new rate is 6.25%.
- 46. B.** (MIP includes both upfront and annual premium amounts) - FHA MIP consists of an upfront premium (typically 1.75% of loan amount) and an annual premium paid monthly.
- 47. C.** (Varies by county and is tied to conforming loan limits) - VA loan limits are tied to conforming loan limits and vary by county based on local housing costs.
- 48. A.** (A 43% debt-to-income ratio for the borrower) - QM allows up to 43% DTI. Negative amortization, interest-only, and excessive points/fees disqualify loans from QM.
- 49. D.** (Government-sponsored enterprises in secondary market) - Fannie Mae and Freddie Mac are GSEs that operate in the secondary market, purchasing loans from originators.
- 50. B.** (670, which is the middle score of the three pulled) - Arranged: 655, 670, 685. The middle score of 670 is used for qualification.
- 51. C.** (15-25% minimum down payment depending on units) - Investment properties typically require 15% for single-family and 25% for 2-4 units under conventional guidelines.
- 52. A.** (Lump sum, line of credit, monthly payments, or combination) - HECM borrowers can receive funds as lump sum, line of credit, monthly payments, or any combination.
- 53. D.** (Unique or special-purpose properties with few comparables) - The cost approach is most appropriate when comparable sales are limited, such as for unique or special-purpose properties.
- 54. B.** (\$6,400, which includes the full car allowance amount) - Taxable car allowances are included in full. Total = $\$5,800 + \$600 = \$6,400$.
- 55. C.** (Be occupied by the borrower as their principal dwelling) - A primary residence must be occupied by the borrower as their principal dwelling.
- 56. A.** (Principal, interest, taxes, insurance, and HOA dues) - Front-end DTI includes PITIA: principal, interest, taxes, insurance, and association dues.
- 57. D.** (A temporarily reduced rate that increases over time) - A buydown features a temporarily reduced interest rate that increases to the full rate over time (e.g., 2-1 buydown).
- 58. B.** (6% of the lesser of sale price or appraised value) - Conventional seller concession limits for LTV >90%: 3%; LTV 75.01-90%: 6%; LTV ≤75%: 9%. With 10% down (90% LTV), the limit is 6%.

- 59. C.** (All mortgages secured by the property in calculation) - CLTV includes all mortgages (first and subordinate liens) divided by property value.
- 60. A.** (Finance the gap between selling one home and buying another) - Bridge loans provide short-term financing to cover the gap between selling an existing home and purchasing a new one.
- 61. D.** (Be located in a USDA-eligible rural area designated) - USDA loans require properties in USDA-designated rural areas as determined by program maps.
- 62. B.** (\$8,400, dividing YTD by 10 months correctly) - YTD through October 31 = 10 months. Monthly = $\$84,000 \div 10 = \$8,400$.
- 63. C.** (Protects the lender against borrower default on loan) - FHA MIP protects the lender (through FHA) against losses when borrowers default.
- 64. A.** (4 years from the completion of the short sale) - Conventional guidelines typically require a 4-year waiting period after a short sale.
- 65. D.** (All monthly debt payments including housing payment) - Back-end DTI includes all monthly debt obligations: housing, car payments, credit cards, student loans, etc.
- 66. B.** (Periodic rate adjustments based on an index plus margin) - ARMs feature periodic rate adjustments calculated as index plus margin, subject to caps.
- 67. C.** (The six pieces of information that define application) - Under TRID, an application is defined as receipt of: name, income, SSN, property address, estimated value, and loan amount.
- 68. A.** (Require written explanation and source documentation) - Multiple cash deposits must be explained and documented to verify legitimate source of funds.
- 69. D.** (10% cumulative tolerance when using lender's list) - Services the borrower can shop for have 10% cumulative tolerance when the borrower selects from the lender's provider list.
- 70. B.** (Two years of tax returns showing consistent income) - 1099 income requires two years of tax returns to establish consistency and stability.
- 71. C.** (No tolerance, meaning any amount of increase allowed) - Transfer taxes are set by government and have no tolerance limit under TRID.
- 72. A.** (Ensure the borrower understands any impact on use) - Easements may affect property use. The borrower should understand any impact before closing.
- 73. D.** (Include assessment of minimum property standards) - FHA appraisals must assess whether the property meets FHA minimum property standards (MPS).

- 74. B.** (Review of the co-op corporation's financial health) - Co-op financing requires review of the corporation's financial health, budget, and management.
- 75. C.** (At application or within 3 days of application) - The servicing disclosure must be provided at application or within 3 business days.
- 76. A.** (Evaluate the dispute and determine impact on approval) - Disputed accounts should be evaluated to determine if they affect creditworthiness and loan approval.
- 77. D.** (The lender discovering it underestimated its fees) - Lender errors in estimating fees are not valid changed circumstances. The lender must absorb the cost.
- 78. B.** (Include lease agreement and evidence of rental history) - Rental income from departing residence requires lease agreement and rental history documentation.
- 79. C.** (By averaging hours over a reasonable time period) - Variable hourly income should be calculated by averaging hours over a reasonable period, typically 2 years.
- 80. A.** (An increase in cash to close from the Loan Estimate) - Cash to close increases don't trigger new waiting periods. Product changes, prepayment penalties, and APR above tolerance do.
- 81. D.** (The veteran's entitlement to VA loan guaranty benefits) - The COE confirms the veteran's eligibility and available entitlement for VA loan benefits.
- 82. B.** (Documentation that funds are truly a gift not a loan) - Employer gifts require documentation confirming funds are a true gift, not an advance or loan.
- 83. C.** (At least once every 12-month computation period) - RESPA requires an escrow analysis at least once during each 12-month computation period.
- 84. A.** (32%, which is within most conventional guidelines) - Front-end DTI = $\$3,200 \div \$10,000 = 32\%$.
- 85. D.** (Large deposit inconsistent with income patterns) - Large deposits must be seasoned (typically 60 days) or fully documented with source verification.
- 86. B.** (A FEMA-designated Special Flood Hazard Area) - Flood insurance is required for properties in FEMA-designated Special Flood Hazard Areas (SFHAs).
- 87. C.** (3 business days of receiving the six application items) - The Loan Estimate must be provided within 3 business days of receiving the application.
- 88. A.** (Use a calculated payment based on loan balance) - Student loans in deferment require using a calculated payment (typically 0.5-1% of balance) for DTI.
- 89. D.** (At least 15 days before the transfer effective date) - The transferring servicer must provide notice at least 15 days before the transfer effective date.

- 90. B.** (A rate-and-term refinance with standard guidelines) - Refinancing solely to lower the rate with no cash out is a rate-and-term refinance.
- 91. C.** (No tolerance allowing any amount of increase) - Homeowner's insurance selected by the borrower has no tolerance under TRID since the borrower controls the cost.
- 92. A.** (Deducting losses from other income sources) - Business losses must be deducted from other income when calculating qualifying income.
- 93. D.** (Down payment amount and prior VA loan use) - The VA funding fee varies based on down payment percentage, first vs. subsequent use, and regular vs. reserve/Guard service.
- 94. B.** (The distributions are consistent and likely to continue) - Retirement distributions can be income if they are consistent and likely to continue for at least 3 years.
- 95. C.** (25 months from the date of the application) - ECOA requires creditors to retain application records for 25 months.
- 96. A.** (Require the addition to be properly permitted) - Unpermitted additions may need to be permitted or removed, depending on lender and program requirements.
- 97. D.** (All actual closing costs and loan terms) - The Closing Disclosure must itemize all actual closing costs and disclose final loan terms.
- 98. B.** (Documented compensating factors justifying approval) - Files with DTI above guidelines may be approved with documented compensating factors.
- 99. C.** (Refuse as this constitutes mortgage fraud) - Inflating income on a loan application is fraud. The MLO must refuse and document accurate income.
- 100. A.** (Is permissible if for fair market value services) - Marketing services agreements are permitted if payments are for actual services at fair market value, not disguised referral fees.
- 101. D.** (Report to compliance and not proceed with loan) - Fraudulent documents must be reported to compliance, and the loan should not proceed.
- 102. B.** (Explain that occupancy must be accurately stated) - Occupancy must be accurately represented. Misrepresenting occupancy is fraud.
- 103. C.** (Legitimate credit risk factors and loan characteristics) - Pricing differences must be based on legitimate factors like credit score, LTV, and loan type—not protected characteristics.
- 104. A.** (Recognize this may indicate appraiser independence issue) - An appraiser promising a specific value suggests a potential independence violation that should be addressed.

- 105. D.** (Document as borrowed funds affecting DTI) - Cash advances are borrowed funds that create a liability and must be included in DTI calculations.
- 106. B.** (Report through appropriate compliance channels) - MLOs aware of fraud must report through proper compliance channels.
- 107. C.** (Decline as this is a prohibited kickback under RESPA) - Items of value given for referrals are prohibited kickbacks under RESPA Section 8.
- 108. A.** (Investigate the discrepancy before proceeding) - Employment/income discrepancies must be investigated and resolved before proceeding.
- 109. D.** (Discourage applications based on familial status) - ECOA and Fair Housing Act prohibit discouraging applications based on familial status.
- 110. B.** (Respect the request and wait for authorization) - Credit should not be pulled without the borrower's authorization.
- 111. C.** (Report through appropriate compliance channels) - Fee-splitting with real estate agents violates RESPA and must be reported.
- 112. A.** (Request original documents and verify authenticity) - Suspected copied signatures require verification with original documents.
- 113. D.** ("Bad credit? No problem! Guaranteed approval") - Claims of guaranteed approval regardless of credit violate Regulation N (MAP Rule).
- 114. B.** (Refuse as altering documents constitutes fraud) - Altering document dates is fraud regardless of the reason or time difference.
- 115. D.** (Borrower purchasing property as clearly investment) - When a borrower claims owner-occupancy but evidence suggests investment intent, this is a red flag for occupancy fraud.
- 116. A.** (An MLO cannot receive compensation from both lender and borrower) - The LO Rule prohibits dual compensation—receiving fees from both the lender and the borrower on the same transaction.
- 117. D.** (Request unredacted statements for proper verification) - Proper verification requires complete, unredacted bank statements showing account numbers.
- 118. B.** (Include the debt in DTI and recalculate qualification) - All known debts must be included in DTI, even if discovered during processing.
- 119. C.** (Charging excessive fees and steering to high-cost loans) - Predatory lending includes excessive fees, steering to inappropriate products, and deceptive practices.

120. A. (Discrimination based on race, color, religion, and more) - ECOA prohibits discrimination based on race, color, religion, national origin, sex, marital status, age, and receipt of public assistance.