

PRACTICE TEST 14

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

1. Under RESPA, a controlled business arrangement is permitted if:

- A. Disclosure is provided and consumer is free to shop elsewhere
- B. Referral fees are paid only between affiliated companies
- C. The consumer is required to use the affiliated provider
- D. No written disclosure is required for the arrangement

2. Under TILA, the term "creditor" includes an entity that:

- A. Only services mortgage loans for other companies
- B. Only provides credit reports to mortgage lenders
- C. Regularly extends consumer credit secured by a dwelling
- D. Only provides appraisal services for lenders

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

- A. 12 months from the date of the application

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

4. Under TRID, when the borrower selects a provider from the lender's written list, the fee is subject to:
- A. Zero tolerance with no increase permitted from LE
 - B. 5% individual tolerance for each provider fee
 - C. No tolerance allowing any amount of increase
 - D. 10% cumulative tolerance with similar fees

5. A HOEPA high-cost mortgage is triggered when the APR exceeds APOR by:
- A. 6.5 percentage points for first-lien loans
 - B. 4.5 percentage points for first-lien loans
 - C. 2.5 percentage points for first-lien loans
 - D. 1.5 percentage points for first-lien loans

6. Under RESPA, the term "federally related mortgage loan" includes loans:
- A. Made only by federal government agencies directly
 - B. Only for commercial properties over \$1 million

- C. Made by lenders with deposits insured by federal agencies
- D. Only for properties located on federal land

7. Under TILA, which fee is included in the finance charge calculation?

- A. Fees for title examination services at closing
- B. Discount points paid to reduce the interest rate
- C. Recording fees charged by the local government
- D. Fees for voluntary credit life insurance coverage

8. Under FCRA, a consumer may place a security freeze on their credit file to:

- A. Permanently delete all negative credit information
- B. Increase their credit score by a minimum of 50 points
- C. Prevent creditors from accessing their credit report
- D. Prevent new credit accounts from being opened

9. Under HMDA, which institution must collect and report loan data?

- A. Depository institutions meeting asset and activity thresholds
- B. All real estate agents who refer clients to lenders
- C. All appraisers who conduct property valuations

D. Only government agencies that provide mortgage insurance

10. Under RESPA, the term "settlement service" does NOT include:

A. Services rendered by an attorney at the closing

B. Title searches and title insurance at settlement

C. Furniture delivery services after the closing

D. Preparation of loan documents for the closing

11. Under the Fair Housing Act, disparate impact refers to:

A. Intentional discrimination against protected classes

B. Neutral policies that disproportionately affect protected classes

C. Advertising that indicates preferences based on race

D. Refusing to negotiate with buyers of certain races

12. Under TILA, the right of rescission period is:

A. 1 business day after consummation of the loan

B. 5 business days after consummation of the loan

C. 7 business days after consummation of the loan

D. 3 business days after consummation of the loan

13. Under ECOA, a creditor may request information about:

- A. The applicant's dependents and their ages
- B. The applicant's plans for having children soon
- C. The applicant's birth control practices used
- D. The applicant's marital intentions for future

14. Under TRID, the Closing Disclosure must be provided:

- A. At least 7 business days before consummation
- B. On the same day as the consummation of loan
- C. At least 3 business days before consummation
- D. At least 10 business days before consummation

15. Under RESPA, a kickback is defined as:

- A. Any payment for goods actually provided at closing
- B. Payment for a referral of settlement service business
- C. Payment of salary to employees for loan origination
- D. Return on ownership interest in a company

16. Under the Homeowners Protection Act, borrower-requested PMI cancellation requires:

- A. Only a verbal request from the borrower by phone
- B. Automatic cancellation at any time requested
- C. No requirements beyond the borrower's request
- D. Good payment history and LTV at 80% of original value

17. Under TILA, the Annual Percentage Rate:

- A. Reflects the total cost of credit as a yearly rate
- B. Is always equal to the note interest rate exactly
- C. Excludes all prepaid finance charges from calculation
- D. Applies only to adjustable-rate mortgage products

18. Under the BSA/AML, a Suspicious Activity Report must be filed:

- A. For all cash deposits regardless of the amount
- B. For all international wire transfers made
- C. When transactions suggest possible illegal activity
- D. Only when requested by the federal government

19. Under ECOA, which is a prohibited basis for discrimination?

- A. The applicant's credit score from credit bureaus
- B. The applicant's receipt of public assistance income
- C. The applicant's debt-to-income ratio calculated
- D. The applicant's employment history verified

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

- A. When the lender discovers it underestimated fees
- B. When the loan officer made a calculation error
- C. When the lender wants to increase its profit
- D. When a valid changed circumstance occurs

21. Under RESPA Section 10, the escrow account balance may include:

- A. A cushion of up to one-sixth of annual disbursements
- B. A cushion of up to one-half of annual disbursements
- C. No cushion amount under any circumstances
- D. A cushion of up to one-third of annual disbursements

22. Under the Gramm-Leach-Bliley Act, a financial institution must:

- A. Share customer information with all affiliates always

- B. Sell customer information to the highest bidder
- C. Provide privacy notices explaining information practices
- D. Delete all customer information after loan closing

23. Under HMDA, data collection helps regulators:

- A. Set individual interest rates for loan applicants
- B. Identify potential discriminatory lending patterns
- C. Determine creditworthiness of individual borrowers
- D. Calculate debt-to-income ratios for applicants

24. Under the E-Sign Act, electronic disclosures require:

- A. Verbal consent from the consumer by telephone
- B. Automatic consent when consumer uses website
- C. No consent requirements under any circumstances
- D. Affirmative consent after receiving proper disclosure

25. Under ECOA, the term "adverse action" includes:

- A. Denial, revocation, or unfavorable change to credit terms
- B. Approval of a loan at the requested interest rate

- C. Providing the loan amount requested by applicant
- D. Offering better terms than originally requested

26. Under the Fair Housing Act, steering refers to:

- A. Requiring larger down payments for lower scores
- B. Varying loan terms based on documented credit risk
- C. Directing buyers toward or away from areas based on race
- D. Charging higher rates to borrowers with poor credit

27. Under TRID, the term "business day" for Loan Estimate purposes means:

- A. Only Monday through Friday excluding holidays
- B. All days the creditor's offices are open for business
- C. All calendar days including weekends and holidays
- D. Only days when the stock market is open

28. Under RESPA, a mortgage servicer must:

- A. Ignore all written complaints from borrowers
- B. Sell the loan within 60 days of closing
- C. Increase escrow amounts without any notice

D. Respond to borrower inquiries within specified timeframes

29. Under TILA, which loan type is subject to HOEPA requirements?

A. High-cost mortgages that exceed specific thresholds

B. All conventional conforming mortgage loans

C. Only loans made by federal government agencies

D. Only loans for commercial investment properties

30. Under the SAFE Act, the nationwide mortgage licensing system is administered by:

A. The Federal Reserve Board of Governors

B. The Department of Housing and Urban Development

C. The Conference of State Bank Supervisors and AARMR

D. The Consumer Financial Protection Bureau only

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

A. Only 10 hours of general mortgage education

B. 20 hours including federal law, ethics, and products

C. Only 15 hours of state-specific regulations

D. Only 25 hours of real estate law courses

32. An MLO fails the national test component three times. The waiting period is:

- A. 30 days from the most recent failed attempt
- B. 60 days from the most recent failed attempt
- C. 90 days from the most recent failed attempt
- D. 180 days from the most recent failed attempt

33. Under the SAFE Act, the unique identifier:

- A. Is assigned permanently to each licensed MLO
- B. Changes each time the MLO changes employers
- C. Is valid for only 2 years before reassignment
- D. Applies only to MLOs at depository institutions

34. Under the SAFE Act, continuing education requirements include:

- A. 20 hours annually with no specific content required
- B. 12 hours annually including only federal law content
- C. 8 hours annually including federal law, ethics, products
- D. 15 hours annually including only state law content

35. Under state regulatory authority, which action may result in license revocation?

- A. Having a credit score below the national average
- B. Engaging in fraud, dishonesty, or material misrepresentation
- C. Changing employers more than once in a calendar year
- D. Failing to originate a minimum number of loans

36. Under the SAFE Act, loan processors must be licensed if they:

- A. Work under direct supervision performing clerical tasks
- B. Only process loans for their licensed employer
- C. Perform only administrative support functions
- D. Negotiate loan terms as independent contractors

37. Under the SAFE Act, temporary authority to originate:

- A. Allows MLOs to work in new state during license application
- B. Eliminates the need for pre-licensing education
- C. Waives background check requirements permanently
- D. Permits origination without any employer sponsorship

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

- A. Access individual borrower credit reports and scores

- B. View complete loan files for all closed transactions
- C. View MLO licensing status and employment history
- D. Access servicer escrow balances for all borrowers

39. Under the SAFE Act, which criminal history bars licensure?

- A. Any traffic violation regardless of age or severity
- B. Felony involving fraud or dishonesty within 7 years
- C. Any misdemeanor regardless of the nature involved
- D. Only violent felonies within the past 10 years

40. Under state regulatory authority, examination of licensees includes:

- A. Only review of marketing materials and advertisements
- B. Only interviews with borrowers who filed complaints
- C. Only review of closed loan files from past 6 months
- D. Review of books, records, and interviews with employees

41. Under the SAFE Act, an MLO changing employment must:

- A. Update NMLS within 30 days of the employment change
- B. Retake the national test before starting new employment

- C. Complete new pre-licensing education at new employer
- D. Wait 90 days before originating at the new employer

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

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

43. A borrower purchases a home for \$475,000 with 15% down. The loan amount is:

- A. \$71,250, which represents the required down payment
- B. \$403,750, which is purchase price minus down payment
- C. \$475,000, which represents the full purchase price
- D. \$380,000, which assumes a 20% down payment

44. A borrower's gross monthly income is \$9,500. Their PITIA is \$2,375 and other debts total \$1,425. The back-end DTI is:

- A. 25%, calculated using only the housing payment
- B. 15%, calculated using only the other monthly debts
- C. 35%, calculated using incorrect income amounts
- D. 40%, calculated using housing and all other debts

45. A 7/1 ARM has an initial rate of 4.5%, margin of 2.75%, and caps of 5/2/5. At first adjustment, the index is 3.5%. The new rate is:

- A. 6.25%, which is the fully indexed rate calculated
- B. 9.5%, which exceeds the periodic cap structure
- C. 3.5%, using only the index without any margin
- D. 4.5%, remaining at the initial rate unchanged

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

- A. 5% of the lesser of purchase price or appraised value
- B. 10% of the lesser of purchase price or appraised value
- C. 3.5% of the lesser of purchase price or appraised value
- D. 20% of the lesser of purchase price or appraised value

47. Under VA loan guidelines, which fee is typically waived for disabled veterans?

- A. The appraisal fee required for the loan
- B. The VA funding fee for the loan guaranty
- C. The title insurance premium at closing
- D. The recording fees charged by county

48. A Qualified Mortgage must meet all requirements EXCEPT:

- A. Points and fees within 3% of the loan amount
- B. Loan term not exceeding 30 years total
- C. Full amortization with no balloon payment
- D. Minimum 20% down payment from borrower

49. The secondary mortgage market includes:

- A. Fannie Mae, Freddie Mac, and Ginnie Mae
- B. Only local community banks and credit unions
- C. Only title insurance companies at closing
- D. Only real estate agents and brokers

50. A borrower has credit scores of 715, 698, and 725. The qualifying score is:

- A. 725, which is the highest score from bureaus
- B. 698, which is the lowest score from bureaus
- C. 715, which is the middle score of three pulled
- D. 713, which is the average of all three scores

51. Under conventional guidelines, a second home:

- A. May be rented full-time as investment property
- B. Must be suitable for year-round occupancy
- C. Must be within 25 miles of primary residence
- D. May not be financed with conventional loans

52. A HECM reverse mortgage requires the borrower to:

- A. Make monthly principal and interest payments
- B. Have a minimum credit score of 700 or higher
- C. Repay the loan within 10 years of closing
- D. Be at least 62 years old and occupy property

53. The sales comparison approach to appraisal:

- A. Uses recently sold comparable properties
- B. Calculates value based on income produced
- C. Determines value from replacement cost
- D. Applies only to commercial properties

54. A borrower earns \$6,200 monthly salary plus \$900 monthly nontaxable disability. Using 25% gross-up, qualifying income is:

- A. \$6,200, excluding all nontaxable income

- B. \$7,100, without any gross-up applied
- C. \$7,325, correctly grossing up disability income
- D. \$8,875, incorrectly grossing up all income

55. Under conventional guidelines, investment properties require:

- A. 3% minimum down payment for all properties
- B. 15-25% minimum down payment based on units
- C. 5% minimum down payment for single-family
- D. 10% minimum down payment for all units

56. The debt-to-income ratio uses:

- A. Net income after taxes and deductions
- B. Only income from secondary employment
- C. Projected income for the next year
- D. Gross monthly income before taxes

57. A balloon mortgage:

- A. Has a large final payment at the end of term
- B. Features only interest payments throughout

- C. Has negative amortization each month
- D. Has payments that increase every year

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

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

59. The loan-to-value ratio:

- A. Uses the higher of price or appraised value
- B. Divides loan amount by lesser of price or value
- C. Excludes subordinate liens from calculation
- D. Applies only to adjustable-rate mortgages

60. A construction-to-permanent loan:

- A. Requires two separate closings with separate costs
- B. Provides only short-term construction financing
- C. Is available only for commercial properties

D. Converts automatically to permanent financing

61. Under USDA guidelines, the borrower must meet:

A. Income limits based on area median income

B. Minimum credit score of 720 or higher

C. Minimum down payment of 10% required

D. Maximum debt-to-income ratio of 28%

62. A borrower's pay stub shows YTD earnings of \$72,000 as of August 31. Monthly income is:

A. \$6,000, dividing YTD by 12 months incorrectly

B. \$7,200, dividing YTD by 10 months incorrectly

C. \$9,000, dividing YTD by 8 months correctly

D. \$8,000, dividing YTD by 9 months incorrectly

63. Private mortgage insurance:

A. Protects the borrower against property value decline

B. Protects the lender against borrower default

C. Is required for all loan types regardless of LTV

D. Cannot be canceled once required on loan

64. After Chapter 7 bankruptcy, conventional loans typically require:

- A. 2-year waiting period from discharge date
- B. 3-year waiting period from discharge date
- C. 7-year waiting period from discharge date
- D. 4-year waiting period from discharge date

65. The front-end DTI ratio includes:

- A. Only the proposed housing expense (PITIA)
- B. All monthly debts including cars and cards
- C. All expenses including utilities and food
- D. Only existing rent before home purchase

66. During an interest-only period:

- A. Principal balance increases each month
- B. Payments are higher than amortizing loans
- C. Payments are lower because no principal paid
- D. Equity builds faster than with amortizing

67. Under TRID, an application consists of:

- A. Only a signed application form from borrower

- B. Name, income, SSN, property address, value, loan amount
- C. Only payment of the application fee required
- D. Only authorization to pull credit report

68. A borrower's bank statement shows a \$25,000 wire transfer from unknown source. The MLO should:

- A. Ignore if total funds are sufficient for closing
- B. Accept verbal explanation from the borrower
- C. Proceed if the borrower has good credit score
- D. Require written explanation and source documentation

69. Under TRID, which fee has zero tolerance?

- A. Services borrower can shop for from any provider
- B. Recording fees charged by local government
- C. Homeowner's insurance selected by borrower
- D. Transfer taxes set by state or local government

70. A self-employed borrower with 40% ownership of an LLC must provide:

- A. Only verbal confirmation of business ownership
- B. Only the most recent year of tax returns

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

71. Under TRID, origination charges are subject to:

- A. 10% cumulative tolerance with similar fees
- B. Zero tolerance with no increases permitted
- C. No tolerance allowing any amount of increase
- D. 5% individual tolerance for each charge

72. A title search reveals an IRS tax lien. Before closing:

- A. The lien automatically transfers to new owner
- B. The buyer must assume the lien as condition
- C. The lien can be ignored if over 10 years old
- D. The lien must be satisfied to provide clear title

73. For FHA loans, the appraisal must:

- A. Assess whether property meets minimum standards
- B. Use only the cost approach for valuation
- C. Be completed by any licensed appraiser

D. Ignore any property condition issues found

74. A borrower is purchasing a PUD. Financing typically requires:

A. Only standard single-family underwriting guidelines

B. No additional documentation beyond appraisal

C. Review of HOA budget and governing documents

D. Only FHA financing for all PUD purchases

75. Under RESPA, the new servicer must provide transfer notice:

A. At least 30 days before effective transfer date

B. No later than 15 days after effective transfer date

C. Only when requested by the borrower in writing

D. Within 60 days after effective transfer date

76. A borrower's credit shows collections totaling \$500. The underwriter should:

A. Automatically deny due to derogatory credit

B. Require all collections paid before closing

C. Ignore collections regardless of amount

D. Evaluate impact and determine if payoff required

77. Under TRID, a changed circumstance includes:

- A. A natural disaster affecting the subject property
- B. The lender discovering it underestimated fees
- C. The loan officer making arithmetic errors
- D. The lender deciding to increase profit margin

78. Rental income from an investment property is typically calculated at:

- A. 100% of gross rent on the lease agreement
- B. 50% of gross rent to be conservative
- C. 75% of gross rent for vacancy and expenses
- D. 125% of gross rent for borrower cushion

79. A VOE shows the borrower's hours were recently reduced. The underwriter should:

- A. Use only the previous higher income amount
- B. Evaluate the income reduction and its impact
- C. Automatically deny due to income instability
- D. Ignore the reduction if temporary in nature

80. Under TRID, which change requires a new 3-day waiting period?

- A. A decrease in total closing costs from LE
- B. An increase in seller credit to borrower
- C. A decrease in cash to close from LE
- D. Addition of a prepayment penalty to terms

81. For FHA loans, the UFMIP is typically:

- A. Financed into the total loan amount
- B. A monthly payment with regular PITI
- C. Waived for all first-time homebuyers
- D. Required only for credit scores below 620

82. Gift funds from a family member require:

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

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

- A. Within 60 days after the loan settlement

- B. At closing or within 45 days after settlement
- C. Only when specifically requested by borrower
- D. Within 90 days after first payment made

84. A borrower's PITIA is \$2,800 and gross monthly income is \$8,000. The front-end ratio is:

- A. 28%, which is below most guidelines
- B. 30%, which is at typical limits
- C. 40%, which exceeds most guidelines
- D. 35%, which is within most guidelines

85. Which income source typically requires 2-year history?

- A. Self-employment, bonus, and commission income
- B. Base salary from current W-2 employment
- 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. Flood insurance as a condition of approval
- D. Waiver of escrow for taxes and insurance

87. The Loan Estimate must be provided within:

- A. 24 hours of receiving application information
- B. 3 business days of receiving application
- C. 7 business days of receiving application
- D. 10 business days of receiving application

88. A borrower's student loan shows \$0 payment in IBR. For DTI:

- A. The debt is excluded entirely from calculation
- B. The full balance must be paid before closing
- C. The borrower must exit IBR to be approved
- D. A calculated payment of 0.5-1% of balance used

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

- A. All original terms and conditions remain unchanged
- B. The borrower must approve the sale in writing
- C. The interest rate automatically increases

D. The borrower may renegotiate all terms

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 cash-out refinance with different guidelines

D. A home equity line with draw period feature

91. Under TRID, recording fees are subject to:

A. Zero tolerance with no increases permitted

B. 10% cumulative tolerance with similar fees

C. No tolerance allowing any amount of increase

D. 5% individual tolerance for each fee

92. Tax returns showing depreciation expense require:

A. Reducing income by the depreciation amount

B. Ignoring depreciation in the calculation

C. Doubling depreciation for accuracy

D. Adding depreciation back as non-cash expense

93. The VA funding fee may be waived for:

- A. Veterans receiving VA disability compensation
- B. All first-time VA homebuyers applying
- C. Veterans serving less than 2 years active
- D. All veterans regardless of circumstances

94. Retirement account assets may count as reserves at:

- A. Full value without any discount applied
- B. Only if liquidated before application
- C. Discounted value accounting for penalties
- D. Only for borrowers over age 70

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

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

96. A property inspection reveals roof damage. The lender may:

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

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

- A. Estimated total closing costs and cash to close
- B. Only the interest rate and monthly payment
- C. Only contact information for all parties
- D. Only comparison to other loan options

98. Compensating factors for higher DTI include:

- A. Recent late payments on existing accounts
- B. High utilization on revolving accounts
- C. Significant reserves, strong credit, low LTV
- D. No employment history or income source

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

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

- C. Omit but note it separately in file notes
- D. Ignore the request without 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 a broker for loans actually brokered
- D. Paying referral fees to real estate agents

101. An MLO discovers a colleague is creating fake bank statements. The MLO should:

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

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

- A. Include the inheritance if borrower expects it
- B. Estimate the amount based on borrower's guess
- C. Explain only verified current assets can be used

D. Include half the expected amount as compromise

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

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

104. An appraiser asks the MLO what value is needed for approval. The MLO should:

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

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

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

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

- A. Maximum focus on generating loan volume
- B. Speed prioritized over accuracy in processing
- C. Honesty, good faith, and fair dealing always
- D. Primary loyalty to employer over consumers

107. An escrow officer offers the MLO a gift card for referrals. The MLO should:

- A. Accept if the value is under \$25 per month
- B. Decline as this is a prohibited kickback
- C. Accept if disclosed to all borrowers
- D. Accept only for refinance transactions

108. Income documents show different figures on tax returns and pay stubs. The MLO should:

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

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

- A. The national origin of the borrower
- B. Insufficient verified income for amount
- C. Property type ineligible for program
- D. Credit score below program minimum

110. A borrower asks the MLO to expedite by skipping employment verification. The MLO should:

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

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

- A. Accept cash too since it seems acceptable
- B. Report through appropriate compliance channels
- C. Ignore since it doesn't affect their business
- D. Discuss privately and take no further action

112. Documents in a loan file appear to have alterations. The MLO should:

- A. Proceed if alterations appear minor

- B. Accept if borrower explains verbally
- C. Use original documents if obtainable
- D. Report to compliance and await resolution

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

- A. "Guaranteed lowest rates in the market"
- B. "Competitive rates for qualified borrowers"
- C. "FHA and VA loans available"
- D. "Call today for current rate information"

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

- A. Change the date if difference is minor
- B. Change but note actual date in file
- C. Refuse as altering documents is fraud
- D. Change if borrower signs a waiver

115. Signs of occupancy fraud include:

- A. Borrower living close to subject property
- B. Borrower purchasing property as investment while claiming primary

- C. Borrower providing detailed moving plans
- D. Borrower attending all property inspections

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

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

117. A borrower provides inconsistent information about employment. The MLO should:

- A. Document concerns and seek clarification
- B. Accept the most recent statement given
- C. Ignore inconsistency if borrower qualifies
- D. Let underwriter resolve all questions

118. An MLO has ownership interest in an appraisal company. Regarding disclosure:

- A. No disclosure required under any rules
- B. Disclosure only for government loans
- C. Written disclosure required with alternatives

D. Disclosure optional at MLO's discretion

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

- A. Exclude since credit report is official
- B. Include the debt in DTI since disclosed
- C. Include only half the debt disclosed
- D. Ignore debts not on credit report

120. Predatory lending practices include:

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

Answer Key and Explanations

- 1. A.** (Disclosure is provided and consumer is free to shop elsewhere) - Controlled business arrangements are permitted under RESPA if: (1) written disclosure of the relationship is provided, (2) the consumer is not required to use the affiliated provider, and (3) no referral fees are paid beyond returns on ownership.
- 2. C.** (Regularly extends consumer credit secured by a dwelling) - Under TILA, a "creditor" is defined as a person who regularly extends consumer credit that is subject to a finance charge or payable by written agreement in more than four installments.
- 3. B.** (25 months from the date of the application) - ECOA Regulation B requires creditors to retain records of credit applications for 25 months from the date of the application or action taken.
- 4. D.** (10% cumulative tolerance with similar fees) - When the borrower selects a provider from the lender's written list of service providers, the fees are subject to the 10% cumulative tolerance category.
- 5. A.** (6.5 percentage points for first-lien loans) - HOEPA high-cost mortgage status is triggered when the APR exceeds APOR by 6.5 percentage points for first-lien loans or 8.5 points for subordinate liens.
- 6. C.** (Made by lenders with deposits insured by federal agencies) - RESPA applies to "federally related mortgage loans," which includes loans made by lenders whose deposits are federally insured (FDIC, NCUA).
- 7. B.** (Discount points paid to reduce the interest rate) - The finance charge under TILA includes discount points, origination fees, PMI, and other prepaid charges for obtaining credit.
- 8. D.** (Prevent new credit accounts from being opened) - A security freeze restricts access to the consumer's credit report, making it difficult for identity thieves to open new accounts.
- 9. A.** (Depository institutions meeting asset and activity thresholds) - HMDA applies to depository institutions and certain non-depository lenders that meet specific asset and loan activity thresholds.
- 10. C.** (Furniture delivery services after the closing) - Settlement services include title, appraisal, credit, legal, and closing services. Post-closing services like furniture delivery are not settlement services.
- 11. B.** (Neutral policies that disproportionately affect protected classes) - Disparate impact occurs when facially neutral policies have a disproportionate negative effect on protected classes, even without intent to discriminate.
- 12. D.** (3 business days after consummation of the loan) - Under TILA, the right of rescission period is 3 business days after consummation, delivery of rescission notice, or delivery of material disclosures, whichever is last.
- 13. A.** (The applicant's dependents and their ages) - ECOA permits questions about dependents and ages when relevant to determining creditworthiness or financial obligations like child support.

- 14. C.** (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.
- 15. B.** (Payment for a referral of settlement service business) - RESPA Section 8 defines a kickback as giving or receiving anything of value for the referral of settlement service business.
- 16. D.** (Good payment history and LTV at 80% of original value) - Under HPA, borrowers may request PMI cancellation when LTV reaches 80% based on original value, with good payment history.
- 17. A.** (Reflects the total cost of credit as a yearly rate) - The APR represents the true cost of credit expressed as a yearly rate, including interest and certain fees.
- 18. C.** (When transactions suggest possible illegal activity) - SARs must be filed when transactions suggest possible money laundering, fraud, or other illegal activity.
- 19. B.** (The applicant's receipt of public assistance income) - ECOA prohibits discrimination based on receipt of public assistance income.
- 20. D.** (When a valid changed circumstance occurs) - Revised Loan Estimates may only be issued when a valid changed circumstance occurs, not for lender errors or profit decisions.
- 21. A.** (A cushion of up to one-sixth of annual disbursements) - RESPA Section 10 permits a maximum escrow cushion of 1/6 (two months) of total annual escrow disbursements.
- 22. C.** (Provide privacy notices explaining information practices) - GLBA requires financial institutions to provide privacy notices explaining how they collect, use, and share nonpublic personal information.
- 23. B.** (Identify potential discriminatory lending patterns) - HMDA data helps regulators identify potential discriminatory lending and assess whether institutions serve community credit needs.
- 24. D.** (Affirmative consent after receiving proper disclosure) - E-Sign requires consumers to provide affirmative consent after receiving disclosures about electronic delivery requirements.
- 25. A.** (Denial, revocation, or unfavorable change to credit terms) - Under ECOA, adverse action includes denial, termination, or unfavorable changes to credit terms.
- 26. C.** (Directing buyers toward or away from areas based on race) - Steering is the illegal practice of directing buyers toward or away from neighborhoods based on protected characteristics.
- 27. B.** (All days the creditor's offices are open for business) - For Loan Estimate purposes, "business day" means any day the creditor's offices are open for substantially all business functions.
- 28. D.** (Respond to borrower inquiries within specified timeframes) - Under RESPA, servicers must acknowledge and respond to borrower inquiries within specified timeframes.

- 29. A.** (High-cost mortgages that exceed specific thresholds) - HOEPA applies to high-cost mortgages that exceed specific APR or points and fees thresholds.
- 30. C.** (The Conference of State Bank Supervisors and AARMR) - NMLS is administered by the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR).
- 31. B.** (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.
- 32. D.** (180 days from the most recent failed attempt) - After failing the national test three times, the waiting period increases to 180 days before the fourth attempt.
- 33. A.** (Is assigned permanently to each licensed MLO) - The unique identifier is permanently assigned and follows the MLO throughout their career.
- 34. C.** (8 hours annually including federal law, ethics, products) - SAFE Act CE requires 8 hours annually: 3 hours federal law, 2 hours ethics, 2 hours nontraditional products, plus elective.
- 35. B.** (Engaging in fraud, dishonesty, or material misrepresentation) - Fraud, dishonesty, and material misrepresentation are grounds for license revocation.
- 36. D.** (Negotiate loan terms as independent contractors) - Independent contractor loan processors who negotiate loan terms must be licensed.
- 37. A.** (Allows MLOs to work in new state during license application) - Temporary authority permits MLOs to originate in a new state for up to 120 days while their license application is pending.
- 38. C.** (View MLO licensing status and employment history) - NMLS Consumer Access allows the public to view MLO licensing, employment history, and disciplinary actions.
- 39. B.** (Felony involving fraud or dishonesty within 7 years) - The SAFE Act bars individuals with felony convictions involving fraud, dishonesty, or breach of trust within 7 years.
- 40. D.** (Review of books, records, and interviews with employees) - State regulatory examinations include reviewing books, records, documents, and interviewing employees.
- 41. A.** (Update NMLS within 30 days of the employment change) - MLOs must update NMLS with employment changes within 30 days.
- 42. C.** (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. B.** (\$403,750, which is purchase price minus down payment) - Loan amount = \$475,000 - (\$475,000 × 15%) = \$475,000 - \$71,250 = \$403,750.

- 44. D.** (40%, calculated using housing and all other debts) - Back-end DTI = $(\$2,375 + \$1,425) \div \$9,500 = \$3,800 \div \$9,500 = 40\%$.
- 45. A.** (6.25%, which is the fully indexed rate calculated) - Fully indexed rate = Index + Margin = $3.5\% + 2.75\% = 6.25\%$. This is within the 5% initial cap ($4.5\% + 5\% = 9.5\%$), so the new rate is 6.25%.
- 46. C.** (3.5% of the lesser of purchase price or appraised value) - FHA requires 3.5% down for borrowers with credit scores of 580 or higher.
- 47. B.** (The VA funding fee for the loan guaranty) - The VA funding fee is waived for veterans receiving VA disability compensation.
- 48. D.** (Minimum 20% down payment from borrower) - QM has no minimum down payment requirement. Points/fees limits, 30-year term, and full amortization are QM requirements.
- 49. A.** (Fannie Mae, Freddie Mac, and Ginnie Mae) - The secondary market includes GSEs (Fannie Mae, Freddie Mac) and Ginnie Mae, which purchase or guarantee mortgage loans.
- 50. C.** (715, which is the middle score of three pulled) - Arranged: 698, 715, 725. The middle score of 715 is used for qualification.
- 51. B.** (Must be suitable for year-round occupancy) - Second homes must be suitable for year-round use, not rented full-time, and located a reasonable distance from primary residence.
- 52. D.** (Be at least 62 years old and occupy property) - HECM requirements include being 62+ and occupying the property as primary residence.
- 53. A.** (Uses recently sold comparable properties) - The sales comparison approach compares the subject property to recently sold similar properties.
- 54. C.** (\$7,325, correctly grossing up disability income) - Salary: \$6,200. Grossed-up disability: $\$900 \times 1.25 = \$1,125$. Total: $\$6,200 + \$1,125 = \$7,325$.
- 55. B.** (15-25% minimum down payment based on units) - Investment properties require 15% for single-family and 25% for 2-4 units under conventional guidelines.
- 56. D.** (Gross monthly income before taxes) - DTI ratios use gross monthly income in the denominator.
- 57. A.** (Has a large final payment at the end of term) - Balloon mortgages feature regular payments with a large final "balloon" payment.
- 58. C.** (6% of lesser of sale price or appraised value) - FHA limits seller concessions to 6% of the lesser of sale price or appraised value.
- 59. B.** (Divides loan amount by lesser of price or value) - LTV = Loan amount \div Lesser of purchase price or appraised value.

- 60. D.** (Converts automatically to permanent financing) - Construction-to-permanent loans automatically convert to permanent mortgage upon completion.
- 61. A.** (Income limits based on area median income) - USDA has income limits based on area median income for program eligibility.
- 62. C.** (\$9,000, dividing YTD by 8 months correctly) - YTD through August 31 = 8 months. Monthly = $\$72,000 \div 8 = \$9,000$.
- 63. B.** (Protects the lender against borrower default) - PMI protects lenders against losses when borrowers default on loans with LTV above 80%.
- 64. D.** (4-year waiting period from discharge date) - Conventional guidelines typically require a 4-year waiting period after Chapter 7 bankruptcy discharge.
- 65. A.** (Only the proposed housing expense - PITIA) - Front-end DTI includes only housing costs: principal, interest, taxes, insurance, and association dues.
- 66. C.** (Payments are lower because no principal paid) - Interest-only payments are lower because no principal is being repaid during that period.
- 67. B.** (Name, income, SSN, property address, value, loan amount) - TRID defines application as receipt of these six pieces of information.
- 68. D.** (Require written explanation and source documentation) - Large wire transfers must be explained and documented to verify legitimate source.
- 69. B.** (Recording fees charged by local government) - Recording fees are subject to zero tolerance under TRID because they are set by government and can be determined with precision. Services the borrower can shop for have 10% tolerance when using the lender's list, or no tolerance when the borrower selects their own provider outside the list.
- 70. C.** (Personal returns, K-1s, and business returns) - Self-employed borrowers with significant ownership need personal returns, K-1s, and business returns.
- 71. B.** (Zero tolerance with no increases permitted) - Origination charges are zero-tolerance fees under TRID.
- 72. D.** (The lien must be satisfied to provide clear title) - Tax liens must be satisfied and released to provide clear title.
- 73. A.** (Assess whether property meets minimum standards) - FHA appraisals must assess whether properties meet FHA minimum property standards.
- 74. C.** (Review of HOA budget and governing documents) - PUD financing requires review of HOA documents, budget, and financial health.

- 75. B.** (No later than 15 days after effective transfer date) - Under RESPA, the new servicer must provide notice within 15 days after the transfer effective date.
- 76. D.** (Evaluate impact and determine if payoff required) - Small collections should be evaluated for impact on approval; some may require payoff.
- 77. A.** (A natural disaster affecting the subject property) - Natural disasters affecting the property constitute valid changed circumstances.
- 78. C.** (75% of gross rent for vacancy and expenses) - Rental income is typically calculated at 75% of gross rent.
- 79. B.** (Evaluate the income reduction and its impact) - Income reductions should be evaluated for impact on qualification.
- 80. D.** (Addition of a prepayment penalty to terms) - Three changes trigger new waiting periods: APR above tolerance, product change, prepayment penalty addition.
- 81. A.** (Financed into the total loan amount) - FHA UFMIP is typically financed into the loan amount.
- 82. C.** (Gift letter, transfer evidence, donor's ability) - Complete gift documentation includes letter, transfer evidence, and donor's ability.
- 83. B.** (At closing or within 45 days after settlement) - Initial escrow statement must be provided at closing or within 45 days.
- 84. D.** (35%, which is within most guidelines) - Front-end DTI = $\$2,800 \div \$8,000 = 35\%$.
- 85. A.** (Self-employment, bonus, and commission income) - Variable income requires 2-year history for stability.
- 86. C.** (Flood insurance as a condition of approval) - Properties in flood zones require flood insurance.
- 87. B.** (3 business days of receiving application) - The LE must be provided within 3 business days of application.
- 88. D.** (A calculated payment of 0.5-1% of balance used) - For \$0 payment student loans, a calculated payment must be used.
- 89. A.** (All original terms and conditions remain unchanged) - When loans are sold, contractual terms remain unchanged.
- 90. C.** (A cash-out refinance with different guidelines) - Refinancing to pay off non-housing debt is cash-out.

- 91. B.** (10% cumulative tolerance with similar fees) - Recording fees have 10% cumulative tolerance under TRID.
- 92. D.** (Adding depreciation back as non-cash expense) - Depreciation is added back because it reduces taxable income but not cash flow.
- 93. A.** (Veterans receiving VA disability compensation) - The VA funding fee is waived for veterans receiving disability compensation.
- 94. C.** (Discounted value accounting for penalties) - Retirement accounts count as reserves at discounted value (typically 60-70%).
- 95. B.** (Individual adverse action notices with reasons) - ECOA requires individual notices to all co-applicants.
- 96. D.** (Require inspection and repair before closing) - Roof damage may require inspection and repair depending on severity.
- 97. A.** (Estimated total closing costs and cash to close) - "Costs at Closing" shows total closing costs and cash to close.
- 98. C.** (Significant reserves, strong credit, low LTV) - Strong compensating factors include reserves, credit, and low LTV.
- 99. B.** (Explain that all debts must be disclosed accurately) - All known debts must be disclosed. Excluding debts is misrepresentation.
- 100. D.** (Paying referral fees to real estate agents) - RESPA prohibits referral fees between settlement service providers.
- 101. A.** (Report through appropriate compliance channels) - MLOs must report known fraud through proper channels.
- 102. C.** (Explain only verified current assets can be used) - Only current, verified assets can be used, not anticipated inheritance.
- 103. B.** (Steer borrowers based on protected characteristics) - Steering based on protected characteristics violates fair lending laws.
- 104. D.** (Decline to discuss values and report the request) - Appraiser independence rules prohibit target value discussions.
- 105. A.** (Document as a loan affecting DTI calculations) - Borrowed funds are liabilities that must be included in DTI.

- 106. C.** (Honesty, good faith, and fair dealing always) - The SAFE Act requires MLOs to conduct business ethically.
- 107. B.** (Decline as this is a prohibited kickback) - Gift cards for referrals are prohibited kickbacks under RESPA.
- 108. D.** (Investigate the discrepancy before proceeding) - Income discrepancies require investigation and resolution.
- 109. A.** (The national origin of the borrower) - ECOA prohibits discouraging applications based on national origin.
- 110. C.** (Explain that verification cannot be waived) - Employment verification is required and cannot be waived.
- 111. B.** (Report through appropriate compliance channels) - Cash payments for referrals violate RESPA and must be reported.
- 112. D.** (Report to compliance and await resolution) - Document alterations require compliance review.
- 113. A.** ("Guaranteed lowest rates in the market") - Unsubstantiated guarantee claims violate Regulation N.
- 114. C.** (Refuse as altering documents is fraud) - Altering document dates is fraud regardless of circumstances.
- 115. B.** (Borrower purchasing property as investment while claiming primary) - Claiming owner-occupancy while actually purchasing as investment is occupancy fraud.
- 116. D.** (The interest rate or terms of the loan) - The LO Rule prohibits compensation based on loan terms.
- 117. A.** (Document concerns and seek clarification) - Employment inconsistencies require documentation and clarification.
- 118. C.** (Written disclosure required with alternatives) - Ownership in service providers requires written disclosure with alternatives.
- 119. B.** (Include the debt in DTI since disclosed) - All known debts must be included regardless of credit report.
- 120. D.** (Charging excessive fees and steering to high-cost loans) - Predatory lending includes excessive fees and inappropriate steering.