

PRACTICE TEST 15

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

1. Under RESPA, the servicer must credit a borrower's mortgage payment:

- A. Within 10 business days of receiving the payment
- B. Only after verifying the payment has cleared
- C. As of the date of receipt if received by due date
- D. Within 30 calendar days of receiving the payment

2. Under TILA, the term "open-end credit" refers to:

- A. A plan where credit may be extended repeatedly up to a limit
- B. A loan with a fixed term and fixed monthly payments
- C. A mortgage with a balloon payment at the end
- D. A loan that cannot be prepaid without penalty

3. Under ECOA, a creditor must provide notice of action taken within:

- A. 15 days of receiving a completed application

- B. 45 days of receiving a completed application
- C. 60 days of receiving a completed application
- D. 30 days of taking the action on application

4. Under TRID, if a borrower waives the 3-day waiting period, it must be:

- A. Done verbally with the loan officer present
- B. A bona fide personal financial emergency in writing
- C. Approved by the lender's compliance department
- D. Done automatically for all refinance transactions

5. A higher-priced mortgage loan requires:

- A. Pre-loan counseling from a HUD-approved counselor
- B. Points and fees not exceeding 8% of loan amount
- C. An escrow account for taxes and insurance for 5 years
- D. A minimum 25% down payment from the borrower

6. Under RESPA, the term "thing of value" includes:

- A. Money, goods, services, and any other consideration
- B. Only cash payments exceeding \$500 total

- C. Only payments made directly to the referrer
- D. Only payments disclosed on the Closing Disclosure

7. Under TILA, which disclosure must be provided for all consumer credit?

- A. The Affiliated Business Arrangement disclosure form
- B. The Special Information Booklet from HUD
- C. The homeownership counseling organization list
- D. The Annual Percentage Rate for the transaction

8. Under FCRA, a credit bureau must:

- A. Immediately remove any disputed information
- B. Investigate disputes within 30 days of receipt
- C. Increase the consumer's score after any dispute
- D. Charge a fee for each dispute investigation

9. Under HMDA, data must be submitted to regulators:

- A. Monthly within 10 days of the prior month end
- B. Quarterly within 30 days of quarter end
- C. Annually by March 1 for the prior calendar year

D. Semi-annually by June 30 and December 31

10. Under RESPA, the Annual Escrow Statement must include:

- A. An account history showing activity for the past year
- B. Only the current balance without any history
- C. Only projected payments for the coming year
- D. Only information about tax payments made

11. Under the Fair Housing Act, which action is PROHIBITED?

- A. Requiring income verification from all applicants
- B. Requiring larger down payments for lower credit
- C. Charging higher rates based on documented risk
- D. Refusing to negotiate with buyers based on religion

12. Under TILA, the finance charge excludes:

- A. Discount points paid to reduce the interest rate
- B. Real estate-related fees like title examination
- C. Private mortgage insurance premiums required
- D. Loan origination fees charged by the creditor

13. Under ECOA, a creditor evaluating a married applicant:

- A. Must always require the spouse as co-applicant
- B. Must use only joint credit history for decision
- C. May not require spouse signature except as permitted
- D. Must consider only the applicant's separate income

14. Under TRID, the term "consummation" means:

- A. The time when the borrower becomes contractually obligated
- B. The time when the loan funds are disbursed
- C. The time when the deed is recorded with county
- D. The time when the borrower receives the keys

15. Under RESPA Section 8, which arrangement is PERMITTED?

- A. A title company paying agents \$100 per referral
- B. A lender paying referral fees to mortgage brokers
- C. An appraiser giving gifts to MLOs for business
- D. An employer paying bonuses to employees for production

16. Under the Homeowners Protection Act, automatic PMI termination:

- A. Occurs when borrower requests at 80% LTV
- B. Occurs when LTV reaches 78% based on original value
- C. Requires borrower request regardless of LTV
- D. Never occurs automatically under any circumstances

17. Under TILA, ARM disclosures must include:

- A. Only the initial interest rate for first year
- B. Only the maximum payment amount possible
- C. How the interest rate and payment may change
- D. Only the fully indexed rate at application

18. Under the BSA/AML, a Currency Transaction Report is required for:

- A. Cash transactions exceeding \$10,000 in a single day
- B. All wire transfers regardless of amount
- C. Any transaction involving foreign currency
- D. Only transactions the bank considers suspicious

19. Under ECOA, which applicant information is PROHIBITED?

- A. The applicant's current employment status

- B. The applicant's debt-to-income ratio
- C. The applicant's credit history from bureaus
- D. The applicant's plans for having children

20. Under TRID, the Loan Estimate must be delivered:

- A. At closing with the final loan documents
- B. Within 3 business days of receiving application
- C. Within 7 business days of receiving application
- D. Within 10 business days of receiving application

21. Under RESPA, an escrow shortage may be collected:

- A. In a single lump sum immediately upon notice
- B. Only at the time of the next annual analysis
- C. Over at least 12 months if it exceeds \$50
- D. Only when the loan is refinanced or sold

22. Under the Gramm-Leach-Bliley Act, consumers may:

- A. Opt out of information sharing with nonaffiliates
- B. Prevent all information sharing with any party

- C. Access all internal notes in their loan file
- D. Demand deletion of all information after closing

23. Under HMDA, which information must be collected?

- A. The borrower's religious affiliation
- B. The borrower's political party membership
- C. The borrower's dietary preferences
- D. The borrower's race, ethnicity, and sex

24. Under the E-Sign Act, electronic signatures:

- A. Are never valid for mortgage transactions
- B. Are valid when consumer provides proper consent
- C. Require notarization to be legally binding
- D. Apply only to non-mortgage consumer loans

25. Under ECOA, an adverse action notice must include:

- A. Only the date of the denial decision
- B. Only the name of the credit bureau used
- C. Specific reasons or right to request reasons

D. Only the creditor's contact information

26. Under the Fair Housing Act, redlining is:

A. Refusing to lend in areas based on racial composition

B. Requiring larger down payments for lower scores

C. Charging higher rates to borrowers with poor credit

D. Advertising properties with discriminatory language

27. Under TRID, "business day" for Closing Disclosure means:

A. Only Monday through Friday except holidays

B. Only days the stock market is open

C. Only days the creditor is open for business

D. All calendar days except Sundays and federal holidays

28. Under RESPA, a Qualified Written Request must:

A. Be submitted verbally by telephone only

B. Be in writing with account-identifying information

C. Include payment for the servicer's research

D. Be submitted through an attorney only

29. Under TILA, which loan has a right of rescission?

- A. A purchase money mortgage on primary residence
- B. A first mortgage on a vacation home property
- C. A refinance on the borrower's primary residence
- D. A mortgage on commercial investment property

30. Under the SAFE Act, which individual must be state-licensed?

- A. An MLO employed by a non-depository mortgage company
- B. An MLO employed by a federally chartered bank
- C. An MLO employed by a federal credit union
- D. A real estate agent who refers clients to lenders

31. Under the SAFE Act, the national test covers:

- A. Only state-specific regulations and guidelines
- B. Only real estate appraisal methods and techniques
- C. Only property valuation for residential properties
- D. Federal law, ethics, and mortgage origination standards

32. After failing the national test twice, the waiting period is:

- A. 60 days from the date of second failed attempt

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

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

- A. Only 10 hours of general mortgage education
- B. Only 15 hours of state-specific regulations
- C. 20 hours including federal law, ethics, products
- D. Only 25 hours of real estate law education

34. Under the SAFE Act, the unique identifier:

- A. Is assigned permanently throughout MLO's career
- B. Changes each time the MLO changes employers
- C. Is valid for only 3 years before reassignment
- D. Applies only to registered MLOs at banks

35. Under the SAFE Act, continuing education requires:

- A. 20 hours annually with no content requirements
- B. 12 hours annually including only federal law

- C. 15 hours annually including only state law
- D. 8 hours annually including federal law, ethics, products

36. Under state regulatory authority, license revocation may result from:

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

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

- A. Work under direct supervision only
- B. Perform only clerical and administrative tasks
- C. Negotiate loan terms as independent contractors
- D. Process loans only for their licensed employer

38. Under the SAFE Act, temporary authority:

- A. Allows origination in new state during license application
- B. Eliminates pre-licensing education requirements
- C. Waives background check requirements permanently

D. Permits origination without employer sponsorship

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

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

40. Under the SAFE Act, which criminal conviction bars licensure?

- A. Any traffic violation regardless of severity
- B. A felony involving fraud within the past 7 years
- C. Any misdemeanor regardless of type
- D. Only violent felonies within 20 years

41. Under state regulatory authority, examination includes:

- A. Only review of marketing materials
- B. Only interviews with complaining borrowers
- C. Review of books, records, and employee interviews
- D. Only review of files from the past 6 months

42. Under the SAFE Act, an MLO must update NMLS:

- A. Within 30 days of any change in employment
- B. Only when renewing the license annually
- C. Within 90 days of any change in status
- D. Only when specifically requested by regulator

SECTION III: GENERAL MORTGAGE KNOWLEDGE

Questions 43-66

43. A borrower purchases a home for \$550,000 with 20% down. The loan amount is:

- A. \$110,000, representing the down payment
- B. \$495,000, assuming only 10% down
- C. \$550,000, representing full purchase price
- D. \$440,000, which is purchase price minus down

44. A borrower's gross monthly income is \$10,500. Their PITIA is \$2,625 and other debts total \$1,575. The back-end DTI is:

- A. 25%, using only the housing payment

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

45. A 5/1 ARM has an initial rate of 5.0%, margin of 2.5%, and caps of 2/2/5. At first adjustment, the index is 4.5%. The new rate is:

- A. 5.0%, remaining at the initial rate
- B. 4.5%, using only the index amount
- C. 7.0%, limited by the 2% periodic cap
- D. 10.0%, exceeding the lifetime cap

46. Under FHA guidelines, the upfront MIP is typically:

- A. 1.75% of the base loan amount financed
- B. 0.5% of the base loan amount financed
- C. Waived for all first-time homebuyers
- D. 3.5% of the base loan amount financed

47. Under VA loan guidelines, the entitlement:

- A. Is the same fixed amount for all veterans
- B. Provides unlimited guaranty for any amount

- C. Applies only to veterans with combat service
- D. Is the maximum VA will guaranty on a loan

48. A Qualified Mortgage must NOT have:

- A. A loan term of 30 years with fixed rate
- B. Negative amortization or interest-only features
- C. Points and fees totaling 2% of loan amount
- D. A debt-to-income ratio of 40% for borrower

49. The secondary mortgage market provides:

- A. Direct loans to consumers for home purchase
- B. Regulation of mortgage loan originators
- C. Liquidity to lenders by purchasing loans
- D. Title insurance for mortgage transactions

50. A borrower has credit scores of 680, 705, and 690. The qualifying score is:

- A. 690, which is the middle score of three
- B. 705, which is the highest score pulled
- C. 680, which is the lowest score pulled

D. 692, which is the average of all three

51. Under conventional guidelines, PMI may be canceled when:

- A. The borrower simply requests cancellation
- B. LTV reaches 90% based on original value
- C. The borrower refinances with any lender
- D. LTV reaches 80% with good payment history

52. A HECM reverse mortgage:

- A. Requires monthly principal and interest payments
- B. Allows access to equity without monthly payments
- C. Is available only for borrowers under age 55
- D. Cannot be used to purchase a home

53. The income approach to appraisal is used for:

- A. Single-family owner-occupied residences only
- B. Vacant land with no improvements
- C. Income-producing rental and investment properties
- D. New construction with no rental history

54. A borrower earns \$7,000 monthly salary plus \$1,000 monthly nontaxable Social Security. Using 25% gross-up, qualifying income is:

- A. \$8,250, correctly grossing up Social Security
- B. \$8,000, without any gross-up applied
- C. \$7,000, excluding all nontaxable income
- D. \$10,000, incorrectly grossing up all income

55. Under conventional guidelines, a second home:

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

56. The debt-to-income ratio uses:

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

57. A balloon mortgage:

- A. Features only interest payments throughout
- B. Has negative amortization each month
- C. Has a large final payment at end of term
- D. Has payments that increase annually

58. Under conventional guidelines, seller concessions for 90% LTV are limited to:

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

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

- A. Includes only the first mortgage lien
- B. Excludes subordinate liens from calculation
- C. Uses the higher of price or appraised value
- D. Includes all mortgages secured by property

60. A bridge loan is used to:

- A. Provide permanent 30-year financing

- B. Finance gap between selling and buying homes
- C. Finance construction of new properties
- D. Provide reverse mortgage for seniors

61. Under USDA guidelines, eligible properties must be:

- A. Located in major metropolitan areas
- B. Used primarily for agricultural production
- C. In USDA-designated rural eligible areas
- D. At least 5 acres in size minimum

62. A borrower's pay stub shows YTD earnings of \$91,000 as of November 30. Monthly income is:

- A. \$8,273, dividing YTD by 11 months correctly
- B. \$7,583, dividing YTD by 12 months incorrectly
- C. \$9,100, dividing YTD by 10 months incorrectly
- D. \$10,111, dividing YTD by 9 months incorrectly

63. Private mortgage insurance:

- A. Protects the borrower against property decline
- B. Is required for all loans regardless of LTV

- C. Cannot be canceled once required on loan
- D. Protects the lender against borrower default

64. After foreclosure, conventional loans typically require:

- A. 2-year waiting period from completion date
- B. 7-year waiting period from completion date
- C. 4-year waiting period from completion date
- D. 10-year waiting period from completion date

65. The front-end DTI ratio includes:

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

66. During the interest-only period:

- A. Principal balance increases each month
- B. Equity builds faster than amortizing loans
- C. Payments are higher than amortizing loans

D. Payments are lower because no principal paid

67. Under TRID, an application is defined as receipt of:

- A. A signed application with borrower authorization
- B. Payment of the application fee from borrower
- C. A credit report and income documents
- D. Name, income, SSN, property address, value, loan amount

68. A borrower's bank statement shows \$18,000 cash deposit. The MLO should:

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

69. Under TRID, services the borrower can shop for have:

- A. Zero tolerance with no increases permitted
- B. 5% individual tolerance for each service
- C. 10% cumulative tolerance if using lender's list
- D. No tolerance allowing any amount of increase

70. A self-employed borrower with 50% business ownership must provide:

- A. Personal and business tax returns for 2 years
- B. Only the most recent year of returns
- C. Only a CPA letter confirming ownership
- D. Only bank statements showing deposits

71. Under TRID, which fee has zero tolerance?

- A. Recording fees charged by local government
- B. Services borrower can shop for independently
- C. Homeowner's insurance selected by borrower
- D. Origination charges paid to the creditor

72. A title search reveals a mechanics lien. Before closing:

- A. The lien automatically transfers to buyer
- B. The lien must be satisfied for clear title
- C. The buyer must assume the lien
- D. The lien can be ignored if small

73. For FHA loans, the property must:

- A. Be in perfect condition with no repairs needed
- B. Be valued using only the income approach
- C. Meet FHA minimum property standards
- D. Be located only in designated FHA zones

74. A borrower purchasing a manufactured home on a permanent foundation needs:

- A. Documentation that home is titled as real property
- B. No additional documentation beyond standard
- C. Only FHA financing for manufactured homes
- D. Cash purchase with no financing available

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

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

76. A borrower's credit shows a 60-day late from 24 months ago. This:

- A. Automatically disqualifies from all programs

- B. May require explanation but doesn't disqualify
- C. Requires 7-year waiting period for approval
- D. Must be removed from credit before closing

77. Under TRID, which is a valid changed circumstance?

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

78. Rental income from a 2-unit property where borrower occupies one unit:

- A. Is calculated at 75% of rent from other unit
- B. Must be excluded entirely from income
- C. Is calculated at 100% of total potential rent
- D. Requires 2 years of landlord experience

79. A VOE shows the borrower was recently promoted with raise. The underwriter should:

- A. Use only the previous salary before promotion
- B. Automatically deny due to recent change

- C. Require borrower to return to previous position
- D. Use new salary if promotion is documented

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

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

81. For FHA loans, the annual MIP:

- A. Is waived for all first-time homebuyers
- B. Is only required for credit scores below 620
- C. Is paid monthly as part of the mortgage payment
- D. Is automatically canceled at 78% LTV

82. Gift funds documentation must include:

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

D. Only borrower's statement showing balance

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

- A. Within 90 days after first payment made
- B. Only when specifically requested by borrower
- C. Within 60 days after the loan closing
- D. At closing or within 45 days of settlement

84. A borrower's PITIA is \$2,500 and gross monthly income is \$8,500. The front-end ratio is:

- A. 25%, below most program guidelines
- B. 29%, within most program guidelines
- C. 35%, at typical program limits
- D. 40%, exceeding most guidelines

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

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

86. A property in a flood zone requires:

- A. Flood insurance as a condition of approval
- B. Automatic denial of the application
- C. A 25% reduction in appraised value
- D. Waiver of escrow requirements

87. The Loan Estimate must be provided within:

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

88. A student loan in income-based repayment with \$0 payment requires:

- A. Excluding the loan entirely from DTI
- B. Using calculated payment of 0.5-1% of balance
- C. Paying off the full balance before closing
- D. Exiting IBR before approval is possible

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

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

90. Refinancing to lower rate with no cash out is:

- A. A rate-and-term refinance with standard guidelines
- B. A cash-out refinance with higher restrictions
- C. A reverse mortgage with no monthly payments
- D. A HELOC with draw period feature

91. Under TRID, transfer taxes are subject to:

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

92. Tax returns showing business losses require:

- A. Ignoring losses entirely in calculation

- B. Deducting losses from other income sources
- C. Automatic denial of the application
- D. Adding losses back as non-cash expenses

93. The VA funding fee varies based on:

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

94. Retirement account assets may count as reserves:

- A. At discounted value accounting for penalties
- B. At full value without any discount
- C. Only if liquidated before application
- D. Only for borrowers over age 70

95. Under ECOA, joint applicants denied must receive:

- A. A single notice addressed to both jointly
- B. Only verbal notification of denial

- C. Notice only if specifically requested
- D. Individual adverse action notices each

96. A property inspection reveals electrical issues. The lender may:

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

97. The Closing Disclosure must itemize:

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

98. Compensating factors for higher DTI include:

- A. Significant reserves, strong credit, low LTV
- B. Recent late payments on existing accounts
- C. High utilization on revolving accounts

D. No employment history or income source

99. A borrower asks the MLO to inflate income on the application. The MLO should:

- A. Inflate if it helps the borrower qualify
- B. Inflate but note actual income in file
- C. Ignore the request without explanation
- D. Refuse as this constitutes mortgage fraud

100. Under RESPA Section 8, which is PROHIBITED?

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

101. An MLO discovers a colleague is creating fraudulent W-2s. The MLO should:

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

102. A borrower wants to list anticipated bonus as current income. The MLO should:

- A. Explain only current documented income can be used
- B. Include anticipated bonus since borrower expects it
- C. Estimate the bonus amount without documentation
- D. Include half the anticipated amount as compromise

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

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

104. An appraiser indicates they can hit any target value requested. The MLO should:

- A. Provide the minimum value needed for approval
- B. Recognize this indicates appraiser independence issue
- C. Thank the appraiser for their cooperation
- D. Request they add cushion to contract price

105. A borrower's down payment is a cash advance on credit card. The MLO should:

- A. Record it as a gift to simplify documentation
- B. Ignore the source if funds are deposited
- C. Document as borrowed funds affecting DTI
- D. Proceed if borrower has good credit

106. Under the SAFE Act, an MLO must:

- A. Conduct business with honesty and fair dealing
- B. Prioritize loan volume over consumer protection
- C. Focus on speed over accuracy in processing
- D. Show primary loyalty to employer always

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

- A. Accept if the value is under \$100
- B. Accept if disclosed to all borrowers
- C. Accept only for purchase transactions
- D. Decline as this is a prohibited kickback

108. Income documents show salary different on paystub versus VOE. The MLO should:

- A. Use whichever shows higher income

- B. Investigate the discrepancy before proceeding
- C. Ignore if borrower has sufficient income
- D. Average the two documents for calculation

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

- A. Insufficient income for requested amount
- B. Credit score below program minimum
- C. The borrower's race or national origin
- D. Property type ineligible for program

110. A borrower asks to skip appraisal to expedite closing. The MLO should:

- A. Explain that appraisal is typically required
- B. Skip appraisal to provide good service
- C. Skip if borrower signs liability waiver
- D. Skip for loans under \$200,000

111. An MLO learns a colleague receives monthly payments from a title company. The MLO should:

- A. Accept payments too since it seems standard
- B. Ignore since it doesn't affect their loans

- C. Discuss privately and take no action
- D. Report through appropriate compliance channels

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

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

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

- A. "Competitive rates for qualified borrowers"
- B. "FHA and VA loans available"
- C. "No credit check required—guaranteed approval"
- D. "Call today for current rate information"

114. A borrower asks the MLO to change the purchase price on documents. The MLO should:

- A. Refuse as altering contract terms is fraud
- B. Change if difference is less than 5%
- C. Change but note actual price in file

D. Change if borrower signs a waiver

115. Signs of potential mortgage fraud include:

- A. Borrower attending all property inspections
- B. Borrower providing complete documentation
- C. Borrower asking detailed property questions
- D. Inconsistencies between application and documents

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

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

117. A borrower provides different income figures at different times. The MLO should:

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

118. An MLO has financial interest in a title company. For AfBA disclosure:

- A. Written disclosure required with right to shop
- B. No disclosure required under any rules
- C. Disclosure only for government loans
- D. Disclosure optional at MLO's discretion

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

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

120. Under fair lending, the Fair Housing Act prohibits:

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

Answer Key and Explanations

- 1. C.** (As of the date of receipt if received by due date) - Under RESPA Regulation X, servicers must credit payments as of the date received if the payment is received by the due date in the proper form.
- 2. A.** (A plan where credit may be extended repeatedly up to a limit) - Open-end credit under TILA refers to credit plans like HELOCs where the borrower may borrow repeatedly up to a credit limit.
- 3. D.** (30 days of taking the action on application) - Under ECOA Regulation B, creditors must notify applicants of action taken within 30 days of taking the action.
- 4. B.** (A bona fide personal financial emergency in writing) - A borrower may waive the 3-day waiting period only for a bona fide personal financial emergency, documented in a dated written statement describing the emergency.
- 5. C.** (An escrow account for taxes and insurance for 5 years) - HPMLs require escrow accounts for property taxes and insurance for a minimum of 5 years from loan consummation.
- 6. A.** (Money, goods, services, and any other consideration) - Under RESPA, "thing of value" is broadly defined to include money, goods, services, discounts, and anything else of value.
- 7. D.** (The Annual Percentage Rate for the transaction) - TILA requires disclosure of the APR for all consumer credit transactions to allow comparison of the true cost of credit.
- 8. B.** (Investigate disputes within 30 days of receipt) - Under FCRA, credit bureaus must complete investigations of consumer disputes within 30 days (extendable to 45 days with additional information).
- 9. C.** (Annually by March 1 for the prior calendar year) - HMDA data must be submitted annually by March 1 for loan activity from the prior calendar year.
- 10. A.** (An account history showing activity for the past year) - The Annual Escrow Statement must include account history, projections, and explanations of any shortage, surplus, or deficiency.
- 11. D.** (Refusing to negotiate with buyers based on religion) - The Fair Housing Act prohibits discrimination based on religion in any aspect of residential real estate transactions.
- 12. B.** (Real estate-related fees like title examination) - TILA excludes certain real estate-related fees from the finance charge, including title examination, abstract, and survey fees.
- 13. C.** (May not require spouse signature except as permitted) - ECOA prohibits requiring a spouse's signature except in specific circumstances, such as when the spouse is needed to access property.
- 14. A.** (The time when the borrower becomes contractually obligated) - Under TILA, "consummation" is defined by state law as when the borrower becomes contractually obligated on the credit transaction.

- 15. D.** (An employer paying bonuses to employees for production) - RESPA Section 8(c)(2) permits employers to compensate employees, including bonuses for loan production.
- 16. B.** (Occurs when LTV reaches 78% based on original value) - Under HPA, automatic PMI termination occurs when LTV reaches 78% based on the original property value and amortization schedule.
- 17. C.** (How the interest rate and payment may change) - ARM disclosures must explain how the rate is calculated, including index, margin, adjustment periods, caps, and payment examples.
- 18. A.** (Cash transactions exceeding \$10,000 in a single day) - CTRs must be filed for cash transactions exceeding \$10,000 in a single business day.
- 19. D.** (The applicant's plans for having children) - ECOA prohibits questions about birth control practices, childbearing intentions, or plans for having children.
- 20. B.** (Within 3 business days of receiving application) - Under TRID, the Loan Estimate must be provided within 3 business days of receiving the six pieces of application information.
- 21. C.** (Over at least 12 months if it exceeds \$50) - Under RESPA, escrow shortages exceeding \$50 must be spread over at least 12 months unless the borrower chooses to pay immediately.
- 22. A.** (Opt out of information sharing with nonaffiliates) - GLBA gives consumers the right to opt out of information sharing with nonaffiliated third parties.
- 23. D.** (The borrower's race, ethnicity, and sex) - HMDA requires collection of demographic information including race, ethnicity, and sex for government monitoring purposes.
- 24. B.** (Are valid when consumer provides proper consent) - Under E-Sign, electronic signatures are valid when the consumer provides affirmative consent after receiving proper disclosures.
- 25. C.** (Specific reasons 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.
- 26. A.** (Refusing to lend in areas based on racial composition) - Redlining is the illegal practice of refusing to lend or varying terms based on the racial or ethnic composition of a neighborhood.
- 27. D.** (All calendar days except Sundays and federal holidays) - For Closing Disclosure purposes, "business day" means all calendar days except Sundays and federal public holidays.
- 28. B.** (Be in writing with account-identifying information) - A QWR must be in writing and include information sufficient to identify the borrower's account.
- 29. C.** (A refinance on the borrower's primary residence) - The right of rescission applies to refinances and subordinate liens on the borrower's primary residence, not purchase money mortgages.

- 30. A.** (An MLO employed by a non-depository mortgage company) - MLOs at non-depository mortgage companies must be state-licensed. Bank and credit union MLOs are registered, not licensed.
- 31. D.** (Federal law, ethics, and mortgage origination standards) - The national test covers federal mortgage law, ethics, and mortgage origination standards applicable across all states.
- 32. B.** (30 days from the date of second failed attempt) - After first and second failures, the waiting period is 30 days. The 180-day period applies after the third failure.
- 33. C.** (20 hours including federal law, ethics, products) - SAFE Act pre-licensing requires 20 hours: 3 hours federal law, 3 hours ethics, 2 hours nontraditional products, plus electives.
- 34. A.** (Is assigned permanently throughout MLO's career) - The unique identifier is permanently assigned and follows the MLO throughout their career, regardless of employer changes.
- 35. D.** (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.
- 36. B.** (Engaging in fraud, dishonesty, or misrepresentation) - Fraud, dishonesty, and material misrepresentation are grounds for license revocation.
- 37. C.** (Negotiate loan terms as independent contractors) - Independent contractor loan processors who negotiate loan terms must be licensed.
- 38. A.** (Allows origination in new state during license application) - Temporary authority permits MLOs to originate in a new state for up to 120 days while their application is pending.
- 39. D.** (View MLO licensing status and disciplinary history) - NMLS Consumer Access allows the public to view MLO licensing, employment history, and disciplinary actions.
- 40. B.** (A felony involving fraud within the past 7 years) - The SAFE Act bars individuals with felony convictions involving fraud, dishonesty, or breach of trust within 7 years.
- 41. C.** (Review of books, records, and employee interviews) - State regulatory examinations include reviewing books, records, documents, and interviewing employees.
- 42. A.** (Within 30 days of any change in employment) - MLOs must update NMLS with employment changes within 30 days.
- 43. D.** (\$440,000, which is purchase price minus down) - Loan amount = $\$550,000 - (\$550,000 \times 20\%) = \$550,000 - \$110,000 = \$440,000$.
- 44. B.** (40%, using housing and all other debts) - Back-end DTI = $(\$2,625 + \$1,575) \div \$10,500 = \$4,200 \div \$10,500 = 40\%$.

- 45. C.** (7.0%, limited by the 2% periodic cap) - Fully indexed rate = $4.5\% + 2.5\% = 7.0\%$. Initial rate is 5.0%, and 2% cap allows up to 7.0%. The new rate is 7.0%.
- 46. A.** (1.75% of the base loan amount financed) - FHA UFMIP is currently 1.75% of the base loan amount, typically financed into the loan.
- 47. D.** (Is the maximum VA will guaranty on a loan) - VA entitlement represents the maximum amount VA will guaranty on a loan, which varies by county.
- 48. B.** (Negative amortization or interest-only features) - QM loans cannot have negative amortization, interest-only payments, balloon payments, or terms over 30 years.
- 49. C.** (Liquidity to lenders by purchasing loans) - The secondary market provides liquidity by purchasing loans from originators, allowing them to make new loans.
- 50. A.** (690, which is the middle score of three) - Arranged: 680, 690, 705. The middle score of 690 is used for qualification.
- 51. D.** (LTV reaches 80% with good payment history) - Borrowers may request PMI cancellation at 80% LTV based on original value with good payment history.
- 52. B.** (Allows access to equity without monthly payments) - HECM reverse mortgages allow seniors 62+ to access home equity without making monthly mortgage payments.
- 53. C.** (Income-producing rental and investment properties) - The income approach values properties based on their income-producing potential, appropriate for rentals.
- 54. A.** (\$8,250, correctly grossing up Social Security) - Salary: \$7,000. Grossed-up SS: $\$1,000 \times 1.25 = \$1,250$. Total: $\$7,000 + \$1,250 = \$8,250$.
- 55. D.** (Must be suitable for year-round occupancy) - Second homes must be suitable for year-round use and located a reasonable distance from primary residence.
- 56. B.** (Gross monthly income before any deductions) - DTI ratios use gross monthly income in the denominator.
- 57. C.** (Has a large final payment at end of term) - Balloon mortgages feature regular payments with a large final "balloon" payment.
- 58. A.** (6% of lesser of sale price or appraised value) - Conventional seller concession limits: LTV >90%: 3%; LTV 75.01-90%: 6%; LTV \leq 75%: 9%. At 90% LTV, limit is 6%.
- 59. D.** (Includes all mortgages secured by property) - CLTV includes all mortgages (first and subordinate liens) divided by property value.

- 60. B.** (Finance gap between selling and buying homes) - Bridge loans provide short-term financing between selling an existing home and purchasing a new one.
- 61. C.** (In USDA-designated rural eligible areas) - USDA loans require properties in designated rural areas as determined by USDA maps.
- 62. A.** (\$8,273, dividing YTD by 11 months correctly) - YTD through November 30 = 11 months. Monthly = $\$91,000 \div 11 = \$8,273$.
- 63. D.** (Protects the lender against borrower default) - PMI protects lenders against losses when borrowers default on loans with LTV above 80%.
- 64. B.** (7-year waiting period from completion date) - Conventional guidelines typically require a 7-year waiting period after foreclosure.
- 65. C.** (Only the proposed housing expense - PITIA) - Front-end DTI includes only housing costs: principal, interest, taxes, insurance, and association dues.
- 66. D.** (Payments are lower because no principal paid) - Interest-only payments are lower because no principal is being repaid during that period.
- 67. D.** (Name, income, SSN, property address, value, loan amount) - TRID defines application as receipt of these six pieces of information.
- 68. B.** (Require written explanation and documentation) - Large cash deposits must be explained and documented to verify legitimate source.
- 69. C.** (10% cumulative tolerance if using lender's list) - Services the borrower can shop for have 10% cumulative tolerance when using the lender's provider list.
- 70. A.** (Personal and business tax returns for 2 years) - Self-employed borrowers with significant ownership need 2 years of personal and business returns.
- 71. D.** (Origination charges paid to the creditor) - Origination charges are zero-tolerance fees under TRID.
- 72. B.** (The lien must be satisfied for clear title) - Mechanics liens must be satisfied and released to provide clear title.
- 73. C.** (Meet FHA minimum property standards) - FHA appraisals must assess whether properties meet FHA minimum property standards.
- 74. A.** (Documentation that home is titled as real property) - Manufactured homes on permanent foundations must be titled as real property for conventional financing.
- 75. D.** (At least 15 days before the transfer date) - The transferring servicer must provide notice at least 15 days before the effective transfer date.

- 76. B.** (May require explanation but doesn't disqualify) - A 60-day late from 24 months ago requires explanation but doesn't automatically disqualify.
- 77. C.** (Information differing from what borrower provided) - Valid changed circumstances include new information that differs from what the borrower originally provided.
- 78. A.** (Is calculated at 75% of rent from other unit) - Rental income from a multi-unit property is typically calculated at 75% of gross rent.
- 79. D.** (Use new salary if promotion is documented) - Documented promotions with salary increases can be used if properly verified.
- 80. B.** (A change from fixed-rate to adjustable-rate) - Product changes, prepayment penalty additions, and APR above tolerance trigger new waiting periods.
- 81. C.** (Is paid monthly as part of the mortgage payment) - FHA annual MIP is paid monthly as part of the total mortgage payment.
- 82. A.** (Gift letter, transfer evidence, and donor's ability) - Complete gift documentation includes letter, transfer evidence, and donor's ability to give.
- 83. D.** (At closing or within 45 days of settlement) - Initial escrow statement must be provided at closing or within 45 days.
- 84. B.** (29%, within most program guidelines) - Front-end DTI = $\$2,500 \div \$8,500 = 29.4\%$, rounded to 29%.
- 85. C.** (Bonus, commission, and self-employment income) - Variable income requires 2-year history for stability.
- 86. A.** (Flood insurance as a condition of approval) - Properties in flood zones require flood insurance.
- 87. D.** (3 business days of receiving application) - The LE must be provided within 3 business days of application.
- 88. B.** (Using calculated payment of 0.5-1% of balance) - For \$0 payment student loans, a calculated payment must be used.
- 89. C.** (All original terms and conditions remain unchanged) - When loans are sold, contractual terms remain unchanged.
- 90. A.** (A rate-and-term refinance with standard guidelines) - Refinancing solely to lower rate with no cash out is rate-and-term.
- 91. D.** (No tolerance allowing any amount of increase) - Transfer taxes are set by government and have no tolerance limit.

- 92. B.** (Deducting losses from other income sources) - Business losses must be deducted from other income when calculating qualifying income.
- 93. C.** (Down payment amount and prior VA use) - The VA funding fee varies based on down payment and first vs. subsequent use.
- 94. A.** (At discounted value accounting for penalties) - Retirement accounts count as reserves at discounted value (typically 60-70%).
- 95. D.** (Individual adverse action notices each) - ECOA requires individual notices to all co-applicants.
- 96. B.** (Require inspection and repair before closing) - Electrical issues may require inspection and repair depending on severity.
- 97. C.** (All actual closing costs and loan terms) - The CD must itemize all actual closing costs and disclose final loan terms.
- 98. A.** (Significant reserves, strong credit, low LTV) - Strong compensating factors include reserves, credit, and low LTV.
- 99. D.** (Refuse as this constitutes mortgage fraud) - Inflating income on a loan application is fraud. The MLO must refuse.
- 100. B.** (Paying referral fees to real estate agents) - RESPA prohibits referral fees between settlement service providers.
- 101. C.** (Report through appropriate compliance channels) - MLOs must report known fraud through proper channels.
- 102. A.** (Explain only current documented income can be used) - Only current, verified income can be used, not anticipated future income.
- 103. D.** (Steer borrowers based on protected characteristics) - Steering based on protected characteristics violates fair lending laws.
- 104. B.** (Recognize this indicates appraiser independence issue) - An appraiser offering to hit target values indicates an independence violation.
- 105. C.** (Document as borrowed funds affecting DTI) - Credit card cash advances are borrowed funds that must be included in DTI.
- 106. A.** (Conduct business with honesty and fair dealing) - The SAFE Act requires MLOs to conduct business ethically.
- 107. D.** (Decline as this is a prohibited kickback) - Tickets for referrals are prohibited kickbacks under RESPA.

- 108. B.** (Investigate the discrepancy before proceeding) - Income discrepancies require investigation and resolution.
- 109. C.** (The borrower's race or national origin) - ECOA and Fair Housing Act prohibit discouraging applications based on race or national origin.
- 110. A.** (Explain that appraisal is typically required) - Appraisals are typically required for mortgage loans and cannot be waived by the borrower.
- 111. D.** (Report through appropriate compliance channels) - Monthly payments for referrals violate RESPA and must be reported.
- 112. B.** (Report to compliance and await resolution) - Documents with whiteout corrections raise authenticity concerns requiring compliance review.
- 113. C.** ("No credit check required—guaranteed approval") - Claims of guaranteed approval without credit checks violate Regulation N.
- 114. A.** (Refuse as altering contract terms is fraud) - Altering purchase contract terms is fraud.
- 115. D.** (Inconsistencies between application and documents) - Inconsistencies between application information and documentation are red flags for potential fraud.
- 116. B.** (The interest rate or terms of the loan) - The LO Rule prohibits compensation based on loan terms.
- 117. C.** (Document concerns and seek clarification) - Income inconsistencies require documentation and clarification.
- 118. A.** (Written disclosure required with right to shop) - Ownership in service providers requires AfBA disclosure with right to shop.
- 119. D.** (Include the debt in DTI since disclosed) - All known debts must be included regardless of credit report.
- 120. B.** (Discrimination based on race, religion, and more) - Fair Housing Act prohibits discrimination based on race, color, religion, national origin, sex, familial status, and disability.