

PRACTICE TEST 4

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

1. A Loan Estimate shows total 10% tolerance fees of \$2,200. At closing, these fees total \$2,500. What is the maximum amount the borrower can be charged for these fees?

- A. \$2,500
- B. \$2,200
- C. \$2,420
- D. \$2,300

2. A borrower's refinance closes on Wednesday, June 4. All required disclosures were properly delivered. The rescission period expires at midnight on:

- A. Saturday, June 7
- B. Sunday, June 8
- C. Monday, June 9
- D. Friday, June 6

3. Under RESPA, a servicer's escrow account analysis reveals a deficiency of \$1,800. The servicer may require the borrower to pay this deficiency:

- A. In a single lump sum within 30 days
- B. Over a minimum of 6 months
- C. Only if the borrower agrees in writing
- D. In equal payments over at least 12 months, or the borrower may pay in a lump sum

4. A creditor receives an application at 11:00 AM on Thursday. Friday is a federal holiday. The creditor's office is closed Saturday and Sunday. By when must the Loan Estimate be delivered?

- A. Monday
- B. Tuesday
- C. Wednesday
- D. The following Thursday

5. Under ECOA, a creditor must retain records related to a denied application for:

- A. 12 months
- B. 36 months
- C. 25 months
- D. 60 months

6. A first-lien mortgage has an APR of 7.75% when the APOR is 6.0%. The loan has no prepayment penalty and meets all other QM requirements. This loan:

- A. Is a high-cost mortgage under HOEPA
- B. Cannot be originated legally
- C. Is a QM with safe harbor protection
- D. Is a QM with rebuttable presumption of compliance

7. Under TILA, which of the following is NOT included in the finance charge?

- A. Application fees charged to all applicants regardless of credit approval
- B. Mortgage broker fees
- C. Loan origination fees
- D. Points paid to reduce the interest rate

8. A borrower closes on a home equity loan on their primary residence. They receive all disclosures at closing on Monday, March 10. When is the last day they can rescind?

- A. Wednesday, March 12
- B. Thursday, March 13
- C. Friday, March 14
- D. Saturday, March 15

9. Under the FCRA, a consumer has the right to dispute inaccurate information. After receiving a dispute, the credit bureau must complete its investigation within:

- A. 15 days
- B. 45 days
- C. 30 days
- D. 60 days

10. A mortgage loan has a principal balance of \$245,000 at an interest rate of 6.25%. What is the monthly interest payment in the first month?

- A. \$1,276.04
- B. \$15,312.50
- C. \$1,531.25
- D. \$1,276.04

11. Under HMDA, a lender is required to report data if it originated at least how many closed-end mortgage loans in each of the two preceding calendar years?

- A. 25 loans
- B. 50 loans
- C. 100 loans
- D. 10 loans

12. A servicer receives a qualified written request on April 5. By what date must the servicer provide a substantive response?

- A. April 10
- B. May 5, or May 20 if extended
- C. April 20
- D. June 5

13. Under TRID, the Closing Disclosure must be received by the borrower at least three business days before consummation. For this rule, "business day" means:

- A. Monday through Friday, excluding federal holidays
- B. Every day except Sunday
- C. All days except Sundays and federal legal public holidays
- D. Monday through Saturday

14. A borrower pays 1.5 discount points on a \$280,000 loan. What is the dollar amount of the points?

- A. \$2,800
- B. \$4,200
- C. \$2,100
- D. \$4,200

15. Under RESPA Section 8, which of the following payments is PERMITTED?

- A. Employer paying an employee a bonus for referrals generated in normal course of business

- B. Title company paying MLO for each referred customer
- C. Real estate agent receiving payment from lender for referrals
- D. MLO receiving gift cards from appraisers for favorable reviews

16. A creditor's Loan Estimate shows \$800 for a creditor-selected appraisal and \$500 for a creditor-selected credit report fee. The actual costs are \$850 for the appraisal and \$475 for the credit report. What is the tolerance violation amount?

- A. \$50
- B. \$25
- C. \$75
- D. \$0

17. Under the Homeowners Protection Act, automatic termination of PMI occurs when the LTV reaches 78% based on:

- A. Current appraised value
- B. The borrower's estimate of value
- C. Original property value and original amortization schedule
- D. Tax assessed value

18. A borrower applies for a loan on Monday, March 3. The Loan Estimate is mailed on Wednesday, March 5. Using the 3-day mailing rule for receipt and the 7-business-day waiting period, what is the earliest consummation date?

- A. March 12
- B. March 14
- C. March 17
- D. March 18

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

- A. \$10,000
- B. \$5,000
- C. \$15,000
- D. \$3,000

20. A creditor denies a mortgage application. Under ECOA, the adverse action notice must be sent within:

- A. 15 days
- B. 30 days
- C. 45 days
- D. 60 days

21. Under TRID, which change to a Closing Disclosure requires a new 3-business-day waiting period?

- A. Increase in recording fees

- B. Decrease in loan amount
- C. Change from a fixed-rate loan to an adjustable-rate loan
- D. Increase in escrow amounts

22. A loan's APR is calculated to be 7.125%. The APOR for comparable transactions is 5.5%. For a first-lien loan, this loan is classified as:

- A. A standard conventional loan
- B. A QM with safe harbor
- C. A high-cost mortgage
- D. A higher-priced mortgage loan (HPML)

23. Under GLBA, financial institutions must provide initial privacy notices:

- A. At the time of establishing a customer relationship
- B. Only when requested by the customer
- C. Within 30 days of account opening
- D. Annually only

24. A borrower has nontaxable disability income of \$3,200 monthly. Using a 25% gross-up factor, what is the qualifying income?

- A. \$3,200

- B. \$4,000
- C. \$2,400
- D. \$3,840

25. Under RESPA, a servicer must acknowledge receipt of a qualified written request within:

- A. 3 business days
- B. 10 business days
- C. 5 business days
- D. 15 business days

26. A borrower exercises rescission on day 2 after closing. The creditor must return all funds paid by the borrower within:

- A. 10 calendar days
- B. 30 calendar days
- C. 10 business days
- D. 20 calendar days

27. Under ECOA, which of the following IS a prohibited basis for credit discrimination?

- A. Receipt of public assistance income
- B. Credit history

- C. Debt-to-income ratio
- D. Employment stability

28. A creditor charges \$3,500 in points and fees on a \$95,000 loan. Under QM rules, what is the maximum permitted for points and fees on this loan amount?

- A. \$2,850
- B. Approximately 5% or \$4,750
- C. \$3,000
- D. \$5,000

29. Under TILA, the right of rescission applies to which of the following transactions?

- A. Purchase of a primary residence
- B. Refinance of a vacation home
- C. Cash-out refinance of a primary residence
- D. Purchase of an investment property

30. Under the SAFE Act, the minimum pre-licensing education requirement is:

- A. 25 hours
- B. 15 hours
- C. 8 hours

D. 20 hours

31. An individual fails the SAFE MLO test twice. What is the waiting period before the third attempt?

A. 30 days after each failure

B. 60 days

C. 90 days

D. 180 days

32. Under the SAFE Act, which of the following individuals is required to be licensed as an MLO?

A. An employee of a federally chartered bank who takes applications

B. A loan processor working as an independent contractor for multiple companies

C. A real estate agent who only refers buyers to lenders

D. A certified public accountant providing tax advice related to mortgages

33. An MLO's license expires on December 31. They fail to renew and complete CE by that date. On January 15, they complete CE and apply for reinstatement. Their license status is:

A. Automatically revoked

B. Active with a late fee

C. Expired, requiring reinstatement according to state procedures

D. Suspended pending investigation

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

- A. 12 hours annually, including 4 hours of federal law
- B. 10 hours annually, including 5 hours of ethics
- C. 6 hours annually, including 2 hours of non-traditional products
- D. 8 hours annually, including 3 hours of federal law, 2 hours of ethics, and 2 hours of non-traditional lending

35. A state regulator has the authority to do all of the following EXCEPT:

- A. Set maximum interest rates for all mortgage loans nationwide
- B. Examine the books and records of licensed mortgage companies
- C. Suspend or revoke MLO licenses
- D. Order restitution for harmed consumers

36. Under the SAFE Act, an individual convicted of a felony involving fraud is:

- A. Eligible for licensure after 5 years
- B. Permanently barred from obtaining an MLO license
- C. Eligible for licensure after 10 years with rehabilitation evidence
- D. Eligible for licensure if the conviction was in another state

37. The purpose of the NMLS unique identifier is to:

- A. Track loan volume for tax purposes
- B. Provide borrowers with contact information
- C. Track MLOs throughout their careers and provide public access to licensing and disciplinary history
- D. Determine commission rates

38. Under temporary authority provisions, an MLO with a valid license in one state may originate in a new state:

- A. Immediately upon applying for a license
- B. Only after passing the new state's exam
- C. Only for 30 days
- D. For up to 120 days while the license application is pending, provided certain conditions are met

39. Which of the following activities can be performed by an unlicensed loan processor working under the supervision of a licensed MLO?

- A. Clerical and administrative tasks such as collecting documents
- B. Negotiating interest rates with borrowers
- C. Offering loan terms to applicants
- D. Discussing different loan products with potential borrowers

40. An MLO must update their information in NMLS within what timeframe after a change in employment?

- A. Immediately
- B. 30 days
- C. 60 days
- D. 10 days

41. Under state law, an MLO's license may be suspended or revoked for:

- A. Having too few loan originations
- B. Failing to maintain auto insurance
- C. Making a material misstatement on the license application
- D. Refusing to originate loans in certain geographic areas

42. The SAFE Act requires background checks for MLO applicants that include:

- A. Medical history review
- B. Political affiliation check
- C. Social media audit
- D. Criminal history and credit report review

43. A borrower is purchasing a home for \$350,000 with a 10% down payment. What is the loan amount?

- A. \$315,000
- B. \$35,000
- C. \$350,000
- D. \$280,000

44. Using the loan amount from Question 43, if the borrower pays 2 discount points, what is the dollar amount?

- A. \$3,500
- B. \$6,300
- C. \$7,000
- D. \$3,150

45. A property is valued at \$420,000. The borrower has a first mortgage of \$294,000 and a HELOC with a \$50,000 limit and \$35,000 current balance. What is the CLTV using the credit limit?

- A. 70%
- B. 78.33%
- C. 81.90%
- D. 83.33%

46. A borrower's gross monthly income is \$7,800. Their PITIA payment is \$1,950, and total monthly debts including PITIA are \$3,120. What are the front-end and back-end DTI ratios?

- A. 25% front-end, 35% back-end
- B. 35% front-end, 40% back-end
- C. 30% front-end, 45% back-end
- D. 25% front-end, 40% back-end

47. A 5/1 ARM has an initial rate of 5.75%, a margin of 2.75%, and a current index of 4.25%. The cap structure is 2/2/5. What is the maximum rate at the first adjustment?

- A. 7.75%
- B. 7.00%
- C. 8.75%
- D. 10.75%

48. Under FHA guidelines, the minimum down payment for a borrower with a 600 credit score is:

- A. 5%
- B. 3.5%
- C. 10%
- D. 20%

49. The VA funding fee for a first-time VA borrower with no down payment is approximately:

- A. 1.25%

- B. 0%
- C. 2.15%
- D. 3.3%

50. A Qualified Mortgage cannot have which of the following features?

- A. 30-year term
- B. Fixed interest rate
- C. Escrow requirement
- D. Interest-only payments

51. The primary market in mortgage lending refers to:

- A. Where loans are originated between lenders and borrowers
- B. Where existing loans are bought and sold
- C. Government loan programs only
- D. International mortgage transactions

52. A loan of \$250,000 at 6.5% annual interest has a monthly interest amount in the first month of:

- A. \$16,250
- B. \$1,354.17

- C. \$1,250.00
- D. \$1,625.00

53. A borrower pays off their mortgage on July 15. Their escrow account has a balance of \$2,400. Under RESPA, the servicer must return this balance within:

- A. 10 business days
- B. 30 calendar days
- C. 20 business days
- D. 45 calendar days

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

- A. 90%
- B. 95%
- C. 75%
- D. 80%

55. A reverse mortgage (HECM) borrower must be at least:

- A. 62 years old
- B. 59½ years old
- C. 65 years old

D. 70 years old

56. The index most commonly used for adjustable-rate mortgages after the LIBOR transition is:

- A. Prime rate
- B. SOFR (Secured Overnight Financing Rate)
- C. Federal funds rate
- D. Treasury bill rate

57. A construction-to-permanent loan benefits borrowers primarily by:

- A. Eliminating the need for construction inspections
- B. Requiring no down payment
- C. Requiring only one closing for both construction and permanent financing
- D. Offering lower interest rates during construction

58. In a subordination agreement, a junior lienholder:

- A. Moves to a senior lien position
- B. Has their lien released entirely
- C. Receives payment before the senior lienholder
- D. Agrees to remain in junior position relative to a new senior lien

59. A borrower's annual income is \$96,000, and they receive \$600 monthly in nontaxable child support. What is the total monthly qualifying income using a 25% gross-up?

- A. \$8,750
- B. \$8,000
- C. \$9,350
- D. \$8,600

60. Table funding is a transaction where:

- A. The borrower pays all closing costs in cash at the table
- B. A loan is funded at closing by a third party while the originator closes in their own name
- C. Multiple borrowers contribute to a single loan
- D. The loan is funded after a 30-day waiting period

61. The purpose of an escrow account is to:

- A. Hold funds for the borrower's emergency expenses
- B. Provide additional collateral for the lender
- C. Collect and hold funds for payment of property taxes, insurance, and other recurring expenses
- D. Cover the lender's administrative costs

62. A borrower has a credit score of 580. Under FHA guidelines, they are eligible for:

- A. No FHA loans
- B. FHA loan with 5% down payment
- C. FHA loan with 10% down payment
- D. FHA loan with 3.5% down payment

63. Fannie Mae and Freddie Mac are:

- A. Government-sponsored enterprises that purchase conforming loans
- B. Federal agencies that insure loans
- C. Private mortgage insurance companies
- D. State regulatory agencies

64. A discount point is equal to:

- A. 0.5% of the loan amount
- B. 1% of the loan amount
- C. 2% of the loan amount
- D. 0.25% of the loan amount

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

- A. Net monthly income
- B. Annual gross income
- C. Gross monthly income
- D. Net annual income

66. A loan with payments that do not fully cover the interest due, causing the balance to increase, has:

- A. Positive amortization
- B. Balloon payments
- C. Interest-only payments
- D. Negative amortization

67. Under TRID, an application is triggered when the lender receives how many pieces of information?

- A. 6
- B. 4
- C. 8
- D. 5

68. A borrower's bank statements show a \$12,000 deposit that is 180% of their monthly income. This deposit:

- A. Can be ignored if the account balance is sufficient
- B. Must be sourced and documented
- C. Is automatically acceptable for down payment
- D. Only requires a verbal explanation

69. The special information booklet "Your Home Loan Toolkit" must be provided within 3 business days of application for:

- A. All refinance transactions
- B. HELOCs only
- C. Purchase transactions
- D. Cash-out refinances only

70. An appraisal for a federally related transaction must be performed by:

- A. Any real estate agent
- B. The borrower's family member if they have appraisal experience
- C. A licensed home inspector
- D. A state-licensed or certified appraiser

71. Under TRID, the Loan Estimate must be delivered within:

- A. 3 business days of application

- B. 7 business days of application
- C. 5 business days of application
- D. 24 hours of application

72. A borrower's Loan Estimate shows zero-tolerance fees of \$1,200. At closing, these fees total \$1,350. The creditor must:

- A. Explain the increase to the borrower
- B. Cure the \$150 tolerance violation within 60 days of consummation
- C. Obtain borrower approval for the increase
- D. Cancel the loan

73. A gift letter for down payment funds must include all of the following EXCEPT:

- A. The donor's relationship to the borrower
- B. The amount of the gift
- C. A statement that no repayment is expected
- D. The donor's Social Security number

74. Under conventional guidelines, self-employed borrowers typically must provide:

- A. One year of tax returns
- B. A business plan only

- C. A CPA letter only
- D. Two years of personal and business tax returns

75. The front-end DTI ratio includes:

- A. Housing expenses only (PITIA)
- B. All monthly debt payments
- C. Housing expenses plus car payments
- D. All debts except credit cards

76. For a HPML, an escrow account must be maintained for at least:

- A. 3 years
- B. 5 years
- C. 1 year
- D. The life of the loan

77. A borrower is purchasing a \$500,000 home with 20% down. What is the loan amount?

- A. \$100,000
- B. \$450,000
- C. \$400,000

D. \$500,000

78. Using the loan amount from Question 77, if the borrower closes on September 20, how many days of prepaid interest will be collected?

A. 20 days

B. 10 days

C. 30 days

D. 11 days (September 20-30)

79. A borrower has monthly gross income of \$6,500 and total monthly debts of \$2,275. What is their back-end DTI ratio?

A. 35%

B. 38%

C. 32%

D. 40%

80. Title insurance protects against:

A. Future property value declines

B. Undiscovered defects in title that existed before the policy was issued

C. Borrower default

D. Natural disasters

81. An appraisal must be delivered to the borrower at least how many business days before consummation?

A. 7 business days

B. 5 business days

C. 3 business days

D. 1 business day

82. Under RESPA, the 10% tolerance category includes:

A. Fees paid to the creditor

B. Transfer taxes

C. Property insurance premiums

D. Recording fees and services the borrower could shop for but selected from the lender's list

83. A borrower's VOE shows they have been employed for 6 months at their current job but were previously unemployed for 4 months. The underwriter should:

A. Automatically approve based on current employment

B. Request an explanation of the employment gap

C. Deny the loan immediately

D. Ignore previous employment history

84. Under FHA guidelines, the maximum front-end DTI ratio is generally:

- A. 28%
- B. 31%
- C. 36%
- D. 43%

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

- A. Automatically disqualifies them from all loan programs
- B. Has no impact on their application
- C. May require an explanation but does not automatically disqualify
- D. Requires a 7-year waiting period

86. The primary appraisal approach for residential properties is the:

- A. Income approach
- B. Cost approach
- C. Capitalization approach
- D. Sales comparison approach

87. A borrower earns \$68,000 annually plus documented overtime averaging \$8,400 annually over the past two years. What is the total monthly qualifying income?

- A. \$6,366.67
- B. \$5,666.67
- C. \$6,066.67
- D. \$7,066.67

88. Under TRID, a valid "changed circumstance" allowing a revised Loan Estimate includes:

- A. The creditor's desire to increase its profit margin
- B. An extraordinary event beyond anyone's control affecting settlement charges
- C. The creditor discovering it underestimated fees
- D. The borrower requesting faster processing

89. A borrower's loan closes on the 5th of the month. Their first payment is due:

- A. The 1st of the same month
- B. The 5th of the following month
- C. The 1st of the second following month
- D. The 15th of the following month

90. When a property appraises for less than the purchase price, the LTV is calculated using:

- A. The purchase price
- B. The average of purchase price and appraised value
- C. The higher of the two values
- D. The appraised value (the lower of purchase price or appraised value)

91. A flood certification determines:

- A. Whether flood insurance is required based on FEMA flood maps
- B. The cost of flood insurance
- C. Whether the property has flood damage
- D. The elevation of the property

92. A borrower has a first mortgage of \$200,000 and wants to obtain a \$30,000 HELOC. The home is worth \$300,000. What is the proposed CLTV?

- A. 66.67%
- B. 76.67%
- C. 70%
- D. 80%

93. Under the ATR rule, lenders must verify income using:

- A. Borrower's verbal statement only

- B. Any documentation the borrower provides
- C. Third-party documents such as tax returns, W-2s, or pay stubs
- D. Social media posts about employment

94. A borrower refinancing their primary residence has a right of rescission that expires at midnight on the:

- A. Day of closing
- B. Second business day after closing
- C. Seventh business day after closing
- D. Third business day after the latest of closing, delivery of rescission notice, or delivery of material disclosures

95. A borrower's monthly income is \$8,000. Their proposed PITIA is \$2,160. What is their front-end ratio?

- A. 27%
- B. 30%
- C. 25%
- D. 32%

96. Under RESPA, when servicing is transferred, the new servicer must send notice within:

- A. 30 days before transfer

- B. 15 days after the transfer date
- C. 3 business days after transfer
- D. 45 days after transfer

97. A borrower's application shows annual income of \$72,000 and a \$15,000 bonus received last year only. How should the bonus be treated?

- A. Add the full bonus to qualifying income
- B. Average the bonus over two years
- C. Exclude the bonus as it lacks a two-year history
- D. Include half the bonus amount

98. A title search reveals an unreleased lien from a mortgage paid off 5 years ago. Before closing:

- A. The borrower must pay off the old lien again
- B. The lien will automatically expire
- C. Nothing needs to be done
- D. A release or satisfaction must be obtained and recorded

99. An MLO is offered a \$1,000 bonus by their employer for every loan that closes with a rate at least 0.5% above par. This compensation structure:

- A. Violates the Loan Originator Rule prohibition on compensation based on loan terms

- B. Is permitted if disclosed to borrowers
- C. Is permitted because it comes from the employer
- D. Is permitted if the rate is still competitive

100. A borrower tells an MLO they plan to rent out the property but want to mark it as owner-occupied. The MLO should:

- A. Follow the borrower's instructions since they signed the application
- B. Explain this is occupancy fraud and refuse to proceed with false information
- C. Mark it as owner-occupied but note the conversation in the file
- D. Let the underwriter decide

101. An MLO learns that a real estate agent in the transaction is the borrower's undisclosed relative. The MLO should:

- A. Ignore it as it's not their concern
- B. Congratulate the borrower on the family discount
- C. Document the relationship and disclose it as it may indicate a non-arm's length transaction
- D. Proceed without disclosure if the agent isn't receiving a commission

102. A borrower's pay stubs show different employer addresses on consecutive stubs. This is:

- A. Normal and requires no further investigation

- B. A sign of excellent employment
- C. Common for large employers
- D. A red flag requiring verification of legitimate employment

103. Under RESPA, which arrangement is PERMITTED?

- A. A reasonable payment for goods or facilities actually furnished
- B. Fee splitting where one party provides no services
- C. Accepting referral fees from title companies
- D. Paying real estate agents for mortgage referrals

104. An MLO suspects a borrower has fabricated bank statements. The appropriate action is to:

- A. Proceed if the loan otherwise qualifies
- B. Report to compliance and decline to proceed with the application
- C. Help the borrower create more believable documents
- D. Only report if the loan amount exceeds \$500,000

105. A borrower complains that the MLO never explained the ARM adjustment provisions. The MLO:

- A. Should rely on the fact that the borrower signed the disclosures
- B. Is protected if they followed company scripts

- C. Has an obligation to ensure borrowers understand material loan terms, regardless of signatures
- D. Is only responsible for what's in writing

106. An appraiser calls the MLO and asks what value is needed for the loan to work. The MLO should:

- A. Provide the purchase price since it's public information
- B. Tell the appraiser the minimum value needed
- C. Suggest the appraiser add 10% to the purchase price for safety
- D. Decline to provide any target value and report the appraiser's conduct

107. Under fair lending laws, which practice is PROHIBITED?

- A. Charging different rates to borrowers with different credit scores
- B. Requiring larger down payments for higher-risk loans
- C. Offering different products based on loan amount
- D. Refusing to lend in a neighborhood based on its racial composition

108. A borrower's employer is the borrower's spouse's company. This situation:

- A. Is automatically fraudulent
- B. Requires additional scrutiny and documentation to verify legitimate employment and income
- C. Should be ignored
- D. Disqualifies the borrower from all loan programs

109. An MLO's advertisement states "Lowest Rates Guaranteed!" This advertisement:

- A. Is acceptable if the MLO's rates are competitive
- B. Is permitted with fine print disclaimers
- C. Violates advertising regulations as it makes an unsubstantiated claim
- D. Is only prohibited for government loans

110. A borrower asks the MLO to recommend a good attorney for closing. The MLO's brother is a real estate attorney. The MLO should:

- A. Recommend the brother without disclosure
- B. Refuse to make any recommendation
- C. Only recommend attorneys who pay referral fees
- D. Disclose the relationship if recommending the brother and provide other options

111. Under the SAFE Act, an MLO must act with:

- A. Honesty and fair dealing in all transactions
- B. Maximum profit for the lender
- C. Speed above accuracy
- D. Deference to employer instructions regardless of legality

112. A borrower reveals they borrowed their down payment from a friend and will repay it after closing. The MLO should:

- A. Proceed since the funds are verified in the account
- B. Document this as it affects debt calculations and may violate program requirements
- C. Suggest the borrower not mention the repayment requirement
- D. Only be concerned if the friend is a family member

113. An MLO notices that loan documents contain an error in the borrower's Social Security number. The MLO should:

- A. Proceed to closing and correct it later
- B. Assume it's a minor typo
- C. Stop the process and correct the error before proceeding
- D. Let the borrower decide if correction is needed

114. A borrower is clearly not fluent in English and seems confused about loan terms. The MLO's ethical obligation is to:

- A. Proceed quickly before the borrower changes their mind
- B. Document that the borrower signed all disclosures
- C. Have the borrower's English-speaking child explain the terms
- D. Ensure the borrower truly understands the terms, using interpretation services if necessary

115. Under Regulation N (MAP), which advertising claim is PROHIBITED?

- A. "Competitive rates available"
- B. "Call for today's rates"
- C. "Guaranteed lowest rates – no one can beat our pricing!"
- D. "FHA and VA loans available"

116. An MLO receives a gift basket from a title company during the holidays. The MLO should:

- A. Accept it without concern
- B. Consider whether accepting creates appearance of impropriety and follow company policy on gifts
- C. Demand more valuable gifts
- D. Only accept if the title company is not affiliated

117. A borrower's credit report shows a debt the borrower claims was paid. The MLO should:

- A. Accept the borrower's statement and exclude the debt
- B. Only include debts the borrower acknowledges
- C. Require documentation of payoff before excluding the debt from DTI calculations
- D. Split the difference and include half the payment

118. Information that a SAR has been filed:

- A. Should be shared with the borrower for transparency
- B. Can be disclosed to law enforcement only
- C. Should be included on the Closing Disclosure
- D. Must never be disclosed to the subject of the SAR

119. A borrower asks an MLO for advice on how to improve their credit score quickly by disputing accurate information. The MLO should:

- A. Explain that disputing accurate information is improper and could constitute fraud
- B. Provide specific dispute letter templates
- C. Recommend credit repair companies that specialize in disputes
- D. Help the borrower identify which accounts to dispute

120. An MLO discovers after closing that the borrower provided falsified income documents. The MLO had no knowledge before closing. The MLO should:

- A. Do nothing since the loan already closed
- B. Report the discovered fraud through appropriate channels
- C. Contact the borrower to discuss the situation privately
- D. Only report if the loan goes into default

Answer Key and Explanations

- 1. C.** (\$2,420) - The 10% tolerance category allows fees to increase by up to 10% of the original estimate. Original estimate of $\$2,200 \times 10\% = \220 permitted increase. Maximum chargeable: $\$2,200 + \$220 = \$2,420$. The actual $\$2,500$ exceeds this, so only $\$2,420$ can be charged; the $\$80$ excess must be cured.
- 2. A.** (Saturday, June 7) - The rescission period is 3 business days. Wednesday (closing) is day 0. Thursday is day 1, Friday is day 2, Saturday is day 3. For rescission purposes, Saturday counts as a business day. The period expires at midnight Saturday, June 7.
- 3. D.** (In equal payments over at least 12 months, or the borrower may pay in a lump sum) - RESPA requires servicers to allow borrowers to pay escrow deficiencies over at least 12 months. Borrowers may choose to pay in a lump sum, but servicers cannot require it. Shortages (different from deficiencies) follow different rules.
- 4. B.** (Tuesday) - Thursday is day 0. Friday is a federal holiday and doesn't count. Saturday counts as a business day (day 1), Sunday doesn't count, Monday is day 2, Tuesday is day 3. The Loan Estimate must be delivered by Tuesday.
- 5. C.** (25 months) - ECOA Regulation B requires creditors to retain records related to denied applications for 25 months. This allows regulators sufficient time to examine fair lending compliance during routine examinations.
- 6. D.** (Is a QM with rebuttable presumption of compliance) - The APR exceeds APOR by 1.75% (7.75% - 6.0%). This exceeds the 1.5% safe harbor threshold but is below the 6.5% HOEPA threshold. Loans meeting QM requirements but exceeding safe harbor pricing receive rebuttable presumption protection.
- 7. A.** (Application fees charged to all applicants regardless of credit approval) - Fees charged to all applicants regardless of whether credit is extended are excluded from the finance charge. Mortgage broker fees, origination fees, and discount points are all included in the finance charge calculation.
- 8. B.** (Thursday, March 13) - Monday (closing and receipt of disclosures) is day 0. Tuesday is day 1, Wednesday is day 2, Thursday is day 3. The rescission period expires at midnight Thursday, March 13, making that the last day to rescind.
- 9. C.** (30 days) - Under FCRA, credit bureaus must complete investigations of consumer disputes within 30 days of receiving the dispute. This may be extended to 45 days if the consumer provides additional relevant information during the investigation.
- 10. D.** (\$1,276.04) - Monthly interest = Principal \times (Annual Rate \div 12) = $\$245,000 \times (0.0625 \div 12) = \$245,000 \times 0.005208 = \$1,276.04$. This represents interest only; the full payment would include principal reduction.
- 11. A.** (25 loans) - HMDA requires reporting for depository institutions and non-depository lenders that originated at least 25 closed-end mortgage loans in each of the two preceding calendar years, along with meeting other threshold requirements.

12. B. (May 5, or May 20 if extended) - Servicers must provide substantive responses to qualified written requests within 30 days (May 5). This period may be extended by 15 additional days with notice to the borrower, making the extended deadline May 20.

13. C. (All days except Sundays and federal legal public holidays) - For the 3-day Closing Disclosure waiting period, "business day" includes Saturdays. This differs from the Loan Estimate timing rule, which uses a different business day definition excluding Saturdays.

14. D. (\$4,200) - Discount points = Loan amount \times Point percentage = $\$280,000 \times 1.5\% = \$280,000 \times 0.015 = \$4,200$. Each point equals 1% of the loan amount, so 1.5 points equals 1.5%.

15. A. (Employer paying an employee a bonus for referrals generated in normal course of business) - RESPA Section 8 exempts employer-employee compensation for referrals. Payments between separate businesses (title company to MLO, agent to lender, appraiser to MLO) are prohibited kickbacks.

16. B. (\$25) - Both fees are zero-tolerance (creditor-selected). Appraisal increased \$50; credit report decreased \$25. Net increase: $\$50 - \$25 = \$25$. For zero-tolerance items, increases and decreases within the same category can offset, resulting in a \$25 net tolerance violation.

17. C. (Original property value and original amortization schedule) - Automatic PMI termination at 78% LTV is based on the original property value and original amortization schedule—not current value, borrower estimates, or tax assessments. This provides a predictable termination date.

18. D. (March 18) - LE mailed March 5 is presumed received March 8 (3-day mail rule). Seven business days from March 8: counting business days (excluding weekends), March 18 is the earliest consummation date.

19. A. (\$10,000) - Currency Transaction Reports must be filed for cash transactions exceeding \$10,000 in a single business day. The \$5,000 threshold applies to Suspicious Activity Reports for suspected illegal activity.

20. B. (30 days) - ECOA requires adverse action notices within 30 days of receiving a completed application. The notice must include specific reasons for denial or inform the applicant of their right to request reasons within 60 days.

21. C. (Change from a fixed-rate loan to an adjustable-rate loan) - Three changes require a new 3-day waiting period: APR increase above tolerance (1/8% fixed, 1/4% ARM), loan product change, or prepayment penalty addition. Recording fees, loan amount decreases, and escrow changes don't trigger new waiting periods.

22. D. (A higher-priced mortgage loan - HPML) - The APR exceeds APOR by 1.625% (7.125% - 5.5%). This exceeds the 1.5% HPML threshold for first-lien loans but is far below the 6.5% HOEPA high-cost threshold.

- 23. A.** (At the time of establishing a customer relationship) - GLBA requires initial privacy notices when the customer relationship is established, not just upon request or after a delay. Annual notices are also required for ongoing relationships.
- 24. B.** (\$4,000) - Gross-up calculation: $\$3,200 \times 1.25 = \$4,000$. The 25% gross-up factor converts nontaxable income to its taxable equivalent for qualification purposes, recognizing that the borrower keeps more of nontaxable income.
- 25. C.** (5 business days) - RESPA requires servicers to acknowledge receipt of qualified written requests within 5 business days. The substantive response must follow within 30 days (extendable to 45 days with notice).
- 26. D.** (20 calendar days) - When a borrower exercises rescission, the creditor must return all money or property within 20 calendar days and release any security interest in the property.
- 27. A.** (Receipt of public assistance income) - ECOA prohibits discrimination based on receipt of public assistance income. Credit history, DTI ratio, and employment stability are legitimate underwriting factors, not prohibited bases.
- 28. B.** (Approximately 5% or \$4,750) - QM points and fees limits are higher for smaller loans. For loans between \$69,678 and \$139,356, the limit is 5%. At \$95,000, the maximum is approximately \$4,750. The \$3,500 charged is within limits.
- 29. C.** (Cash-out refinance of a primary residence) - Rescission applies to refinances and home equity transactions on primary residences only. Purchase transactions (regardless of property type) and transactions on non-primary residences don't have rescission rights.
- 30. D.** (20 hours) - The SAFE Act requires a minimum of 20 hours of NMLS-approved pre-licensing education, including 3 hours of federal law, 3 hours of ethics, and 2 hours of non-traditional mortgage products. States may require additional hours.
- 31. A.** (30 days after each failure) - The first and second test failures require a 30-day waiting period before retaking. After the third failure, the waiting period increases to 180 days (6 months).
- 32. B.** (A loan processor working as an independent contractor for multiple companies) - Independent contractor loan processors must be licensed as MLOs unless working exclusively for one company under supervision. Bank employees are registered, not licensed. Referral-only agents and CPAs providing tax advice don't require MLO licenses.
- 33. C.** (Expired, requiring reinstatement according to state procedures) - Failure to renew and complete CE by December 31 results in license expiration. Reinstatement requires completing CE, paying fees, and following state-specific procedures. It's not automatic revocation, but the license isn't active.
- 34. D.** (8 hours annually, including 3 hours of federal law, 2 hours of ethics, and 2 hours of non-traditional lending) - SAFE Act CE requirements are 8 hours annually with specific content requirements: 3 federal law, 2 ethics, 2 non-traditional products, and 1 hour elective or as required by states.

- 35. A.** (Set maximum interest rates for all mortgage loans nationwide) - State regulators have authority within their states only and cannot set nationwide rate limits. They can examine records, take disciplinary action, and order restitution for violations within their jurisdiction.
- 36. B.** (Permanently barred from obtaining an MLO license) - The SAFE Act permanently bars individuals convicted of felonies involving fraud, dishonesty, breach of trust, or money laundering from MLO licensure. There is no waiting period or rehabilitation exception for these specific offenses.
- 37. C.** (Track MLOs throughout their careers and provide public access to licensing and disciplinary history) - The NMLS unique identifier follows MLOs throughout their careers, allowing consumers and regulators to access licensing status, employment history, and any disciplinary actions through the NMLS Consumer Access website.
- 38. D.** (For up to 120 days while the license application is pending, provided certain conditions are met) - Temporary authority allows MLOs to originate for up to 120 days while their application is pending in a new state, provided they have a valid license elsewhere and meet other requirements.
- 39. A.** (Clerical and administrative tasks such as collecting documents) - Unlicensed processors may perform clerical duties like collecting documents, ordering services, and data entry. They cannot negotiate terms, quote rates, or discuss loan products—activities requiring licensure.
- 40. B.** (30 days) - MLOs must update their NMLS record within 30 days of employment changes. Some states may require shorter notification periods, so MLOs should verify their state's specific requirements.
- 41. C.** (Making a material misstatement on the license application) - Material misstatements on applications are grounds for license suspension or revocation. Low origination volume, auto insurance status, and geographic lending patterns are not grounds for disciplinary action.
- 42. D.** (Criminal history and credit report review) - SAFE Act background checks include FBI criminal history through fingerprinting and credit report review. Medical history, political affiliation, and social media are not part of required background checks.
- 43. A.** (\$315,000) - Purchase price minus down payment equals loan amount. $\$350,000 \times 10\% = \$35,000$ down payment. $\$350,000 - \$35,000 = \$315,000$ loan amount.
- 44. B.** (\$6,300) - Discount points = Loan amount \times Point percentage = $\$315,000 \times 2\% = \$315,000 \times 0.02 = \$6,300$.
- 45. C.** (81.90%) - CLTV uses HELOC credit limit, not current balance. $(\$294,000 + \$50,000) \div \$420,000 = \$344,000 \div \$420,000 = 81.90\%$.
- 46. D.** (25% front-end, 40% back-end) - Front-end: $\$1,950 \div \$7,800 = 25\%$. Back-end: $\$3,120 \div \$7,800 = 40\%$. Front-end includes only PITIA; back-end includes all debts.

- 47. A. (7.75%)** - Initial rate is 5.75%. First adjustment cap is 2%. Maximum at first adjustment: $5.75\% + 2\% = 7.75\%$. The fully indexed rate ($4.25\% + 2.75\% = 7.00\%$) is below the cap, but the question asks for the maximum.
- 48. B. (3.5%)** - FHA allows 3.5% down payment for credit scores of 580 and above. Scores between 500-579 require 10% down. A 600 score qualifies for the 3.5% minimum.
- 49. C. (2.15%)** - First-time VA borrowers with no down payment pay a funding fee of approximately 2.15%. The fee is reduced with larger down payments and is higher for subsequent use.
- 50. D. (Interest-only payments)** - QM loans prohibit interest-only payments, negative amortization, balloon payments, and terms exceeding 30 years. Fixed rates, reasonable terms, and escrow requirements are permitted or required.
- 51. A. (Where loans are originated between lenders and borrowers)** - The primary market is where mortgage loans originate—the transaction between lender and borrower. The secondary market is where existing loans are bought and sold.
- 52. B. (\$1,354.17)** - Monthly interest = $\$250,000 \times (6.5\% \div 12) = \$250,000 \times 0.005417 = \$1,354.17$. This represents first month's interest on the outstanding principal.
- 53. C. (20 business days)** - RESPA requires servicers to return escrow balances within 20 business days of loan payoff. This ensures borrowers receive their escrowed funds promptly after the loan terminates.
- 54. D. (80%)** - Conventional loans with LTV exceeding 80% typically require private mortgage insurance. PMI can be cancelled when LTV reaches 80% by request or 78% automatically.
- 55. A. (62 years old)** - HECM reverse mortgage borrowers must be at least 62 years old, occupy the property as their primary residence, and complete HUD-approved counseling.
- 56. B. (SOFR - Secured Overnight Financing Rate)** - SOFR replaced LIBOR as the primary ARM index following LIBOR's phase-out. SOFR is based on Treasury repurchase agreement transactions.
- 57. C. (Requiring only one closing for both construction and permanent financing)** - Construction-to-permanent loans combine both phases into one closing, saving borrowers the cost and hassle of two separate closings.
- 58. D. (Agrees to remain in junior position relative to a new senior lien)** - Subordination agreements allow existing junior lienholders to maintain their junior position when a new first mortgage is originated, typically during refinances.
- 59. A. (\$8,750)** - Annual salary: $\$96,000 \div 12 = \$8,000$ monthly. Grossed-up child support: $\$600 \times 1.25 = \750 . Total: $\$8,000 + \$750 = \$8,750$ monthly qualifying income.

- 60. B.** (A loan is funded at closing by a third party while the originator closes in their own name) - Table funding occurs when a warehouse lender or investor provides funds at closing while the broker or correspondent closes the loan in their name.
- 61. C.** (Collect and hold funds for payment of property taxes, insurance, and other recurring expenses) - Escrow accounts collect monthly amounts from borrowers to pay property taxes, insurance, and similar expenses when due.
- 62. D.** (FHA loan with 3.5% down payment) - A 580 credit score meets FHA's minimum for the 3.5% down payment option. Scores between 500-579 require 10% down; below 500 doesn't qualify for FHA.
- 63. A.** (Government-sponsored enterprises that purchase conforming loans) - Fannie Mae and Freddie Mac are GSEs that buy conforming loans from lenders and securitize them. They don't insure loans or regulate lending.
- 64. B.** (1% of the loan amount) - One discount point equals 1% of the loan amount. Points are prepaid interest used to buy down the interest rate.
- 65. C.** (Gross monthly income) - DTI ratios use gross monthly income (before taxes and deductions) in the denominator. Net income is not used for qualification calculations.
- 66. D.** (Negative amortization) - Negative amortization occurs when payments don't cover interest due, causing unpaid interest to be added to the principal balance. The loan balance increases rather than decreases.
- 67. A.** (6) - TRID defines an application as receipt of six pieces of information: borrower's name, income, Social Security number, property address, estimated property value, and loan amount sought.
- 68. B.** (Must be sourced and documented) - Large deposits exceeding a threshold relative to income (typically 50%) must be sourced and documented. A \$12,000 deposit representing 180% of monthly income requires explanation and verification.
- 69. C.** (Purchase transactions) - The special information booklet must be provided within 3 business days of application for purchase transactions only. Refinances and HELOCs are not required to receive this booklet.
- 70. D.** (A state-licensed or certified appraiser) - Federally related transactions require appraisals by state-licensed or certified appraisers. Real estate agents, family members, and home inspectors cannot perform appraisals.
- 71. A.** (3 business days of application) - TRID requires the Loan Estimate to be delivered within 3 business days of receiving an application (the six pieces of information).
- 72. B.** (Cure the \$150 tolerance violation within 60 days of consummation) - Zero-tolerance fees cannot increase. The \$150 overage is a tolerance violation that must be cured by refunding the excess within 60 days of consummation.

- 73. C.** (The donor's Social Security number) - Gift letters must include the donor's relationship, gift amount, and statement that no repayment is expected. The donor's SSN is not required on the gift letter.
- 74. D.** (Two years of personal and business tax returns) - Self-employed borrowers typically must provide two years of personal and business tax returns to document income stability and verify reported earnings.
- 75. A.** (Housing expenses only - PITIA) - The front-end ratio includes only housing expenses: principal, interest, taxes, insurance, and association dues. The back-end ratio includes all monthly debt obligations.
- 76. B.** (5 years) - HPMLs require escrow accounts for at least 5 years from consummation. This protects borrowers from payment shock if escrow were cancelled shortly after closing.
- 77. C.** (\$400,000) - Purchase price minus down payment equals loan amount. $\$500,000 - (20\% \times \$500,000) = \$500,000 - \$100,000 = \$400,000$.
- 78. D.** (11 days - September 20-30) - Prepaid interest covers from closing through month end. September 20 through September 30 inclusive equals 11 days (counting the 20th).
- 79. A.** (35%) - Back-end DTI = Total monthly debts \div Gross monthly income = $\$2,275 \div \$6,500 = 35\%$.
- 80. B.** (Undiscovered defects in title that existed before the policy was issued) - Title insurance protects against past defects not discovered during the title search, such as forgeries, recording errors, or unknown heirs.
- 81. C.** (3 business days) - Appraisals must be delivered to borrowers at least 3 business days before consummation. Borrowers may waive this period only after receiving the appraisal.
- 82. D.** (Recording fees and services the borrower could shop for but selected from the lender's list) - The 10% tolerance category includes recording fees and services where the borrower could shop but chose a provider from the lender's written list.
- 83. A.** (Request an explanation of the employment gap) - Employment gaps require explanation and documentation. Automatic approval or denial without investigation is inappropriate; gaps may have legitimate explanations.
- 84. B.** (31%) - FHA's general front-end DTI guideline is 31%, with back-end at 43%. Automated underwriting may approve higher ratios with compensating factors.
- 85. C.** (May require an explanation but does not automatically disqualify) - A 90-day mortgage late from 2 years ago is a negative factor requiring explanation but doesn't automatically disqualify. Credit has had time to recover.
- 86. D.** (Sales comparison approach) - The sales comparison (market) approach is primary for residential properties, comparing the subject to recently sold comparable properties with adjustments for differences.

- 87. A.** (\$6,366.67) - Base salary: $\$68,000 \div 12 = \$5,666.67$. Two-year average overtime: $\$8,400 \div 12 = \700 . Total: $\$5,666.67 + \$700 = \$6,366.67$ monthly.
- 88. B.** (An extraordinary event beyond anyone's control affecting settlement charges) - Valid changed circumstances include extraordinary events, information differing from what was provided, or borrower-requested changes. Creditor errors don't qualify.
- 89. C.** (The 1st of the second following month) - Closing on the 5th means the first payment is due the 1st of the month following 30+ days. Closing September 5th means first payment November 1st.
- 90. D.** (The appraised value - the lower of purchase price or appraised value) - LTV calculations use the lesser of purchase price or appraised value to prevent borrowers from obtaining inflated financing based on high appraisals.
- 91. A.** (Whether flood insurance is required based on FEMA flood maps) - Flood certifications determine if a property is in a Special Flood Hazard Area using FEMA maps, triggering flood insurance requirements for federally related loans.
- 92. B.** (76.67%) - $CLTV = (\text{First mortgage} + \text{HELOC}) \div \text{Property value} = (\$200,000 + \$30,000) \div \$300,000 = \$230,000 \div \$300,000 = 76.67\%$.
- 93. C.** (Third-party documents such as tax returns, W-2s, or pay stubs) - ATR requires income verification through reliable third-party documents, not just borrower statements or unverified documentation.
- 94. D.** (Third business day after the latest of closing, delivery of rescission notice, or delivery of material disclosures) - Rescission expires at midnight on the third business day after the latest of these three events. All must occur to start the clock.
- 95. A.** (27%) - $\text{Front-end ratio} = \text{PITIA} \div \text{Gross income} = \$2,160 \div \$8,000 = 27\%$.
- 96. B.** (15 days after the transfer date) - Under RESPA, the new servicer must send notice to the borrower within 15 days after the transfer effective date. The transferring servicer must provide notice at least 15 days before transfer.
- 97. C.** (Exclude the bonus as it lacks a two-year history) - Variable income like bonuses requires a two-year documented history to establish consistency. A one-year bonus cannot be included without history showing likelihood of continuance.
- 98. D.** (A release or satisfaction must be obtained and recorded) - Unreleased liens cloud title even when paid. A satisfaction or release document must be obtained from the prior lender and recorded before closing.
- 99. A.** (Violates the Loan Originator Rule prohibition on compensation based on loan terms) - Compensation based on interest rate violates Regulation Z's Loan Originator Rule. MLO compensation cannot be tied to loan terms other than principal amount.

100. B. (Explain this is occupancy fraud and refuse to proceed with false information) - Occupancy fraud is a federal crime. MLOs must refuse to participate and explain the serious legal consequences for both borrower and originator.

101. C. (Document the relationship and disclose it as it may indicate a non-arm's length transaction) - Undisclosed relationships between transaction parties are red flags for potential fraud. Non-arm's length transactions require disclosure and may affect loan terms.

102. D. (A red flag requiring verification of legitimate employment) - Inconsistent employer addresses on pay stubs may indicate fraudulent documents. Legitimate employers maintain consistent address information.

103. A. (A reasonable payment for goods or facilities actually furnished) - RESPA permits reasonable payments for actual goods and services. Fee splitting without services, referral fees between separate businesses, and kickbacks are prohibited.

104. B. (Report to compliance and decline to proceed with the application) - Suspected fraud requires reporting through proper channels and refusing to proceed. MLOs cannot participate in or ignore suspected document falsification.

105. C. (Has an obligation to ensure borrowers understand material loan terms, regardless of signatures) - Ethical MLOs ensure genuine borrower understanding. Signatures alone don't fulfill the obligation to provide clear explanations of material terms.

106. D. (Decline to provide any target value and report the appraiser's conduct) - Appraiser independence rules prohibit communicating desired values. An appraiser requesting target values has violated independence standards and should be reported.

107. D. (Refusing to lend in a neighborhood based on its racial composition) - Redlining—refusing to lend based on neighborhood racial composition—violates fair lending laws. Risk-based pricing using credit scores, LTV, and loan amount is permitted.

108. B. (Requires additional scrutiny and documentation to verify legitimate employment and income) - Employment with a spouse's company isn't automatically fraudulent but requires extra verification to confirm legitimate employment, actual work performed, and arm's length compensation.

109. C. (Violates advertising regulations as it makes an unsubstantiated claim) - "Guaranteed" claims are inherently misleading and violate Regulation N. No lender can guarantee the lowest rates, making such claims deceptive.

110. D. (Disclose the relationship if recommending the brother and provide other options) - Conflicts of interest require disclosure. The MLO may recommend the brother but must disclose the relationship and provide alternatives.

111. A. (Honesty and fair dealing in all transactions) - The SAFE Act and state laws require MLOs to act with honesty and fair dealing. MLO obligations prioritize ethical conduct over employer instructions or profit maximization.

112. B. (Document this as it affects debt calculations and may violate program requirements) - Borrowed down payment funds create a debt obligation affecting DTI and may violate program requirements. Gift funds must truly be gifts with no repayment expected.

113. C. (Stop the process and correct the error before proceeding) - SSN errors must be corrected immediately. Proceeding with incorrect identifying information creates compliance issues and potential identity problems.

114. D. (Ensure the borrower truly understands the terms, using interpretation services if necessary) - Ethical obligations require ensuring genuine borrower understanding. Language barriers require interpretation services, not rushing or relying on family members.

115. C. ("Guaranteed lowest rates – no one can beat our pricing!") - Unsubstantiated guarantee claims violate Regulation N. General statements about competitive rates and available programs without guarantees are permitted.

116. B. (Consider whether accepting creates appearance of impropriety and follow company policy on gifts) - Small gifts may create appearance issues even without explicit quid pro quo. MLOs should consider RESPA implications and follow employer gift policies.

117. C. (Require documentation of payoff before excluding the debt from DTI calculations) - Debts appearing on credit reports are included unless documented as paid. Borrower statements alone are insufficient to exclude debts from calculations.

118. D. (Must never be disclosed to the subject of the SAR) - SAR filing information is confidential and must never be disclosed to the person who is the subject of the report. Tipping off SAR subjects is itself a violation.

119. A. (Explain that disputing accurate information is improper and could constitute fraud) - Disputing accurate credit information is improper. MLOs should not assist borrowers in making false disputes, which could constitute fraud.

120. B. (Report the discovered fraud through appropriate channels) - Discovering fraud post-closing still triggers reporting obligations. MLOs must report through compliance channels even when they had no prior knowledge.