

# PRACTICE TEST 5

---

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

1. Under TRID, an application is considered received when the lender has collected which pieces of information from the borrower?

- A. Name, income, and credit score
- B. Name, income, Social Security number, property address, estimated property value, and mortgage loan amount sought
- C. Name, address, and loan purpose
- D. Name, income, Social Security number, and employment verification

---

2. A borrower's Loan Estimate shows \$1,800 in fees subject to zero tolerance. At closing, these fees total \$1,925. What must occur?

- A. The borrower must pay the full \$1,925
- B. The creditor must obtain borrower approval for the increase
- C. The loan must be cancelled
- D. The creditor must cure the \$125 tolerance violation within 60 days of consummation

---

3. Under ECOA, a creditor must provide an adverse action notice within what timeframe after taking action on a completed application?

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

---

4. A servicer's escrow analysis reveals a shortage of \$360. Under RESPA, the servicer must allow the borrower to pay this shortage over:

- A. 6 months minimum
- B. 3 months minimum
- C. 12 months minimum, or the borrower may pay in full
- D. 24 months minimum

---

5. A first-lien mortgage has an APR of 8.25% when the APOR is 5.5%. Which classification applies?

- A. Standard conventional loan
- B. Higher-priced mortgage loan (HPML)
- C. High-cost mortgage under HOEPA
- D. QM with safe harbor

---

6. Under the Homeowners Protection Act, PMI on a standard loan must be automatically terminated when LTV reaches:

- A. 78% based on original value and amortization schedule
- B. 80% based on original value
- C. 78% based on current appraised value
- D. 75% based on any valuation method

---

7. A borrower refinances their primary residence and receives all required disclosures at closing on Tuesday, April 8. When does the rescission period expire?

- A. Thursday, April 10
- B. Friday, April 11
- C. Wednesday, April 9
- D. Saturday, April 12 at midnight

---

8. Under FCRA, when a consumer disputes information on their credit report, the credit bureau must complete its investigation within:

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

---

9. Under HMDA, which of the following is NOT required to be reported?

- A. Loan originations
- B. Commercial real estate loans
- C. Denied applications
- D. Applications withdrawn by applicants

---

10. A creditor receives a mortgage application on Thursday at 3 PM. Friday is a regular business day. The weekend follows. By when must the Loan Estimate be delivered?

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

---

11. Under RESPA Section 8, which payment is PROHIBITED?

- A. Employer bonus to employee for meeting sales goals
- B. Payment for actual services rendered at fair market value
- C. Title company paying MLO \$200 for each customer referred
- D. Salary paid to employees

---

12. The purpose of the APR disclosed under TILA is to:

- A. Show the borrower's credit score requirement

- B. Indicate the maximum rate the loan can reach
- C. Display the monthly payment amount
- D. Provide a standardized measure of the cost of credit including certain fees

---

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

- A. Fees paid to the creditor
- B. Recording fees and fees for services the borrower could shop for but used the lender's list
- C. Transfer taxes
- D. Prepaid interest

---

14. A borrower's loan has a principal balance of \$175,000 at 7.25% interest. What is the monthly interest for the first month?

- A. \$1,057.29
- B. \$12,687.50
- C. \$1,268.75
- D. \$875.00

---

15. Under the USA PATRIOT Act Customer Identification Program, financial institutions must verify customer identity:

- A. Only for cash transactions over \$10,000

- B. Before any loan can be closed
- C. Within a reasonable time after the account relationship is established
- D. Only when suspicious activity is detected

---

16. Under ECOA, which of the following IS a prohibited basis for credit decisions?

- A. Length of residence at current address
- B. Debt-to-income ratio
- C. Employment history
- D. National origin

---

17. A Closing Disclosure is provided to the borrower on Monday. The borrower receives it the same day. What is the earliest day consummation can occur?

- A. Tuesday
- B. Thursday
- C. Wednesday
- D. Friday

---

18. Under GLBA, a financial institution must provide a privacy notice to consumers:

- A. At the establishment of the customer relationship and annually thereafter
- B. Only when requested

- C. Only when sharing information with affiliates
- D. Only at account closing

---

19. Under the BSA/AML, a Suspicious Activity Report must be filed for suspected illegal activity involving transactions over:

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

---

20. A borrower pays 2.5 discount points on a \$320,000 loan. What is the total cost of the points?

- A. \$3,200
- B. \$6,400
- C. \$320
- D. \$8,000

---

21. Under TRID, a revised Loan Estimate due to a valid changed circumstance must be provided within:

- A. 24 hours
- B. 3 business days of the changed circumstance
- C. 7 business days

D. 5 business days

---

22. Under the Fair Housing Act, which practice is considered illegal steering?

A. Directing minority applicants only to certain neighborhoods based on racial composition

B. Showing properties within the buyer's stated price range

C. Recommending school districts when buyers mention children

D. Providing information about neighborhood amenities

---

23. Under RESPA, when a loan is paid off, the servicer must return the escrow balance within:

A. 10 business days

B. 30 calendar days

C. 45 days

D. 20 business days

---

24. A creditor's Loan Estimate shows a lender credit of \$2,000. At closing, the actual lender credit is \$1,800. What is the result?

A. This is acceptable since credits decreased

B. The borrower must pay the \$200 difference

C. This is a tolerance violation; the creditor must provide the full \$2,000 credit

D. The loan must be cancelled

---

25. Under TILA, the right of rescission does NOT apply to:

- A. Cash-out refinances on primary residences
- B. Purchase money mortgages on primary residences
- C. Home equity loans on primary residences
- D. Rate-and-term refinances on primary residences

---

26. A servicer receives a notice of error on March 15. By when must the servicer complete its investigation and respond?

- A. April 14, or April 29 if extended
- B. March 20
- C. May 15
- D. March 30

---

27. Under ECOA, if an applicant does not provide demographic information (race, ethnicity, sex), the MLO must:

- A. Leave the section blank
- B. Refuse to process the application
- C. Note the information based on visual observation and surname for in-person applications
- D. Estimate based on the neighborhood

---

28. The Dodd-Frank Act created which federal agency with primary consumer protection authority?

- A. Federal Reserve Board
- B. HUD
- C. FDIC
- D. Consumer Financial Protection Bureau (CFPB)

---

29. Under RESPA, the Annual Escrow Statement must be provided within what timeframe?

- A. 15 days of request
- B. 30 days after the escrow account computation year ending
- C. 60 days of closing
- D. 90 days of any disbursement

---

30. Under the SAFE Act, the minimum continuing education requirement is:

- A. 8 hours annually
- B. 12 hours annually
- C. 20 hours annually
- D. 6 hours annually

---

31. An MLO fails the national test three times. What waiting period applies before the fourth attempt?

- A. 30 days
- B. 60 days
- C. 90 days
- D. 180 days

---

32. Under the SAFE Act, an individual is defined as a mortgage loan originator if they:

- A. Only process loan documents
- B. Only perform clerical tasks
- C. Take residential mortgage loan applications or negotiate loan terms for compensation
- D. Only provide real estate referrals

---

33. Which of the following is a ground for denial of an MLO license under the SAFE Act?

- A. Having a college degree in an unrelated field
- B. Conviction of a felony involving fraud within the past 7 years
- C. Previous employment in real estate
- D. Living in a different state than where applying

---

34. An MLO changes employers. Within what timeframe must this change be reported to NMLS?

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

---

35. Under the SAFE Act, which individual must be registered but not licensed?

- A. MLO working for a mortgage broker
- B. MLO working for a non-depository lender
- C. Loan processor working as an independent contractor
- D. MLO employed by a federally chartered bank

---

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

- A. Calculate MLO compensation
- B. Determine loan approval
- C. Provide public access to MLO licensing and disciplinary history
- D. Set interest rates

---

37. Under state law, an MLO's license may be revoked for:

- A. Originating too few loans in a calendar year

- B. Engaging in fraud, misrepresentation, or dishonest dealing
- C. Declining a loan application
- D. Changing employers without prior approval

---

38. Pre-licensing education under the SAFE Act must include:

- A. 3 hours of federal law, 3 hours of ethics, and 2 hours of non-traditional mortgage products
- B. 5 hours of federal law only
- C. 10 hours of state law only
- D. 8 hours of general finance

---

39. A state regulator examining a mortgage company may do all of the following EXCEPT:

- A. Review loan files
- B. Interview employees
- C. Order restitution for harmed borrowers
- D. Approve individual loan applications

---

40. Under temporary authority provisions, an MLO may originate in a new state while their license application is pending for up to:

- A. 30 days
- B. 60 days

- C. 120 days
- D. 180 days

---

41. Which activity may be performed by an unlicensed individual working under MLO supervision?

- A. Negotiating interest rates with borrowers
- B. Collecting documents and performing clerical tasks
- C. Offering loan terms to applicants
- D. Discussing loan programs with potential borrowers

---

42. Under the SAFE Act, the waiting period after the first or second failed test attempt is:

- A. 30 days
- B. 60 days
- C. 90 days
- D. 180 days

---

43. A borrower is purchasing a home for \$425,000 with 15% down. What is the loan amount?

- A. \$63,750
- B. \$425,000
- C. \$340,000

D. \$361,250

---

44. Using the loan amount from Question 43, what is the LTV?

A. 15%

B. 80%

C. 85%

D. 90%

---

45. A property is valued at \$380,000. The first mortgage is \$285,000 and there is a HELOC with a \$40,000 limit (current balance \$25,000). What is the CLTV?

A. 75%

B. 85.53%

C. 81.58%

D. 78.95%

---

46. A borrower has gross monthly income of \$8,400 and total monthly debt obligations of \$3,108. What is the back-end DTI ratio?

A. 37%

B. 42%

C. 35%

D. 40%

---

47. A 7/1 ARM has an initial rate of 6.5%, margin of 2.5%, current index of 5.0%, and cap structure of 5/2/5. What is the maximum rate at the first adjustment?

A. 8.5%

B. 7.5%

C. 13.5%

D. 11.5%

---

48. The VA loan guarantee for a first-time user with full entitlement and no down payment is:

A. 50% of the loan amount

B. 100% of the loan amount

C. 25% of the loan amount

D. 10% of the loan amount

---

49. Under FHA guidelines, a borrower with a 575 credit score requires a minimum down payment of:

A. 3.5%

B. 10%

C. 20%

D. 5%

---

50. Which loan feature is PROHIBITED in a Qualified Mortgage?

- A. Negative amortization
- B. 30-year fixed rate
- C. Escrow account requirement
- D. Points paid to reduce the rate

---

51. The secondary mortgage market:

- A. Originates loans directly to borrowers
- B. Processes loan applications
- C. Underwrites mortgage loans
- D. Purchases existing loans from originators, providing liquidity

---

52. A loan of \$225,000 at 6.75% annual interest has a first-month interest payment of:

- A. \$15,187.50
- B. \$1,265.61
- C. \$1,265.63
- D. \$1,518.75

---

53. PITI stands for:

- A. Points, Interest, Taxes, Insurance
- B. Principal, Interest, Taxes, Insurance
- C. Principal, Index, Term, Insurance
- D. Payment, Interest, Term, Insurance

---

54. 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

---

55. A discount point equals:

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

---

56. Private mortgage insurance is typically required when LTV exceeds:

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

---

57. A construction-to-permanent loan requires:

- A. Two separate closings
- B. One closing for both construction and permanent financing
- C. Three separate closings
- D. No closing until construction is complete

---

58. The purpose of subordination is to:

- A. Allow an existing junior lien to remain junior when a new senior lien is created
- B. Release a lien entirely
- C. Transfer a loan to another borrower
- D. Increase the loan amount

---

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

- A. 65 years old

- B. 59½ years old
- C. 70 years old
- D. 62 years old

---

60. Table funding refers to:

- A. Borrower paying cash at closing
- B. Multiple parties contributing to a loan
- C. A loan funded by a third party at closing while the originator closes in their name
- D. Delayed funding after a waiting period

---

61. A borrower earns \$78,000 annually plus \$9,600 in documented, stable overtime. What is the monthly qualifying income?

- A. \$6,500
- B. \$7,300
- C. \$6,800
- D. \$7,800

---

62. The front-end DTI ratio includes:

- A. Housing expenses only (PITIA)
- B. All monthly debt payments

- C. Housing plus auto payments
- D. All debts except student loans

---

63. A loan where payments don't cover all interest due, causing the balance to increase, features:

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

---

64. The sales comparison approach to appraisal is most appropriate for:

- A. Commercial properties
- B. Unique properties with no comparables
- C. Residential properties
- D. Income-producing properties

---

65. A borrower's three credit scores are 682, 710, and 695. Which score is used for qualification?

- A. 682
- B. 695
- C. 710

D. 696 (the average)

---

66. An ARM's margin is:

- A. A fixed percentage added to the index to determine the interest rate
- B. The maximum rate increase allowed
- C. The profit retained by the lender
- D. The same as the index

---

67. Under TRID, the Loan Estimate must be provided within:

- A. 5 business days of application
- B. 24 hours of application
- C. 7 business days of application
- D. 3 business days of application

---

68. A borrower's bank statements show a \$20,000 deposit when monthly income is \$6,000. This deposit:

- A. Is automatically acceptable
- B. Can be verified verbally
- C. Must be sourced and documented
- D. Is only questioned if over \$25,000

---

69. The "Your Home Loan Toolkit" booklet must be provided for:

- A. All loan types
- B. Purchase transactions only
- C. Refinances only
- D. HELOCs only

---

70. For HPMLs, an escrow account must be maintained for at least:

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

---

71. A valid changed circumstance under TRID includes:

- A. Creditor discovering it underestimated fees
- B. Creditor wanting to increase profit margin
- C. Borrower requesting faster closing
- D. Information received that differs from what the borrower originally provided

---

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

- A. Donor's relationship to borrower
- B. Statement that no repayment is expected
- C. Donor's tax returns
- D. Amount of the gift

---

73. Self-employed borrowers typically must provide:

- A. A business plan only
- B. Two years of personal and business tax returns
- C. One year of tax returns
- D. Verbal verification of income

---

74. Under TRID, zero-tolerance fees include:

- A. Fees paid to the creditor and fees for services where the creditor selected the provider
- B. Recording fees
- C. Owner's title insurance
- D. Property insurance premiums

---

75. A borrower closes on the 15th of the month. How many days of prepaid interest are typically collected?

- A. 30 days
- B. 15 days
- C. 45 days
- D. 16 days (15th through end of month)

---

76. Title insurance protects against:

- A. Future property value declines
- B. Borrower default
- C. Undiscovered defects in title existing before the policy date
- D. Natural disasters

---

77. An appraisal for a federally related transaction must be delivered to the borrower:

- A. At closing only
- B. At least 3 business days before consummation
- C. Within 24 hours of completion
- D. Only upon request

---

78. A borrower's VOE shows 6 months at current job following 3 months unemployment. The underwriter should:

- A. Request an explanation of the employment gap

- B. Automatically approve based on current income
- C. Deny the loan
- D. Ignore previous employment history

---

79. Under FHA guidelines, the standard maximum front-end DTI ratio is:

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

---

80. The 10% tolerance category under TRID includes:

- A. Transfer taxes
- B. Fees paid to the creditor
- C. Recording fees and services the borrower could shop for but selected from lender's list
- D. Prepaid interest

---

81. When an appraisal comes in below purchase price, LTV is calculated using:

- A. The purchase price
- B. The lower of purchase price or appraised value

- C. The average of both values
- D. The higher of the two values

---

82. A flood determination is required to:

- A. Determine if flood insurance is required based on FEMA maps
- B. Calculate flood insurance premiums
- C. Assess flood damage
- D. Measure property elevation

---

83. Under the ATR rule, which factor must be verified?

- A. Borrower's political affiliation
- B. Borrower's favorite color
- C. Borrower's religious beliefs
- D. Borrower's income using third-party documentation

---

84. A borrower's monthly income is \$9,500 and proposed PITIA is \$2,470. What is the front-end ratio?

- A. 30%
- B. 25%
- C. 26%

D. 28%

---

85. Under RESPA, the new servicer must provide notice of a servicing transfer within:

- A. 30 days before transfer
- B. 15 days after the transfer date
- C. 3 business days
- D. 45 days

---

86. A borrower's credit report shows a medical collection of \$1,200. Under many conventional guidelines:

- A. Medical collections may be excluded from consideration
- B. The borrower is automatically disqualified
- C. A 3-year waiting period is required
- D. The full amount must be paid before closing

---

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

- A. The interest rate automatically increases
- B. The borrower must requalify
- C. The loan term is shortened
- D. Loan terms remain unchanged; only ownership changes

---

88. A borrower earns \$5,200 monthly and receives \$800 monthly in nontaxable VA disability benefits. Using a 25% gross-up, what is total qualifying income?

- A. \$6,000
- B. \$5,200
- C. \$6,200
- D. \$7,500

---

89. Under TRID, if the Closing Disclosure is mailed, the creditor must assume receipt:

- A. The same day
- B. 3 business days after mailing
- C. 5 business days after mailing
- D. 7 business days after mailing

---

90. A borrower has a first mortgage of \$240,000 and wants a \$35,000 HELOC. Home value is \$350,000. What is the proposed CLTV?

- A. 78.57%
- B. 68.57%
- C. 85%
- D. 75%

---

91. A title search reveals an unreleased mortgage from a prior transaction. Before closing:

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

---

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

- A. Decrease in loan amount
- B. Increase in escrow deposits
- C. APR increase above tolerance threshold
- D. Change in property tax estimate

---

93. A borrower's application shows annual income of \$84,000. They also received a \$6,000 bonus last year only. How should the bonus be treated?

- A. Add the full bonus
- B. Exclude the bonus due to lack of two-year history
- C. Average over two years
- D. Include half the bonus

---

94. For VA loans, residual income considers:

- A. Income remaining after all debts and expenses, varying by family size and region
- B. Only the housing payment
- C. Only debt payments
- D. The same DTI ratios as conventional loans

---

95. A borrower closes on September 25. When is their first mortgage payment typically due?

- A. October 1
- B. October 25
- C. November 25
- D. November 1

---

96. An MLO orders an appraisal. The appraiser calls asking what value is needed for the loan to work. The MLO should:

- A. Provide the purchase price
- B. Suggest adding 10% to the purchase price
- C. Decline to provide any target value and report the appraiser's inquiry
- D. Tell the appraiser the minimum needed

---

97. A borrower has a car payment of \$425 with 9 remaining payments. Under many conventional guidelines:

- A. The debt must be paid off before closing
- B. The debt may be excluded from DTI if fewer than 10 payments remain
- C. The debt is always included regardless of remaining payments
- D. Only half the payment is counted

---

98. Under ECOA, when joint applicants apply together, adverse action notice must be provided to:

- A. All applicants
- B. Only the primary applicant
- C. Only the applicant with the lowest credit score
- D. Only the applicant with the highest income

---

99. An MLO's compensation structure pays more for loans with higher interest rates. This arrangement:

- A. Is permitted if disclosed to borrowers
- B. Is permitted if rates remain competitive
- C. Is acceptable because it comes from the employer
- D. Violates the Loan Originator Rule prohibition on compensation based on loan terms

---

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

- A. Follow the borrower's instructions
- B. Mark it as requested but note the conversation
- C. Explain this is occupancy fraud and refuse to proceed with false information
- D. Let underwriting make the decision

---

101. A borrower's pay stubs show inconsistent employer information. This is:

- A. Normal for most employers
- B. A red flag requiring verification of employment legitimacy
- C. Only concerning for self-employed borrowers
- D. Acceptable if the borrower explains verbally

---

102. Under RESPA, which arrangement is PERMITTED?

- A. Payment for goods or services actually furnished at fair market value
- B. Referral fees between title companies and MLOs
- C. Fee splitting without services rendered
- D. Kickbacks disclosed to borrowers

---

103. An MLO suspects fabricated bank statements. The appropriate action is:

- A. Proceed if other documentation is strong
- B. Help the borrower improve the documents
- C. Report only if the loan exceeds \$500,000
- D. Report to compliance and decline to proceed

---

104. An appraiser asks the MLO for a target value. The MLO should:

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

---

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

- A. Charging higher rates for lower credit scores
- B. Refusing to lend in a neighborhood based on racial composition
- C. Requiring larger down payments for higher LTV loans
- D. Offering different products based on loan size

---

106. A borrower reveals their down payment was borrowed from a friend with repayment expected. The MLO should:

- A. Document this as it affects debt calculations and may violate program requirements

- B. Proceed since funds are in the account
- C. Suggest the borrower not mention the repayment
- D. Only be concerned if repayment is in writing

---

107. An MLO advertisement states "Guaranteed Approval!" This advertisement:

- A. Is acceptable with fine print disclaimers
- B. Is permitted if the lender has flexible guidelines
- C. Is only prohibited for government loans
- D. Violates advertising regulations as an unsubstantiated claim

---

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

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

---

109. When a SAR is filed, this information:

- A. Must be disclosed to the borrower
- B. Must never be disclosed to the subject of the SAR

- C. Should be noted on the Closing Disclosure
- D. Can be shared with real estate agents

---

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

- A. Document and disclose the relationship as it may indicate a non-arm's length transaction
- B. Ignore it as not their concern
- C. Congratulate the borrower
- D. Proceed without disclosure if no commission is paid

---

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

- A. Comply if it's a minor date change
- B. Backdate but note the true date elsewhere
- C. Comply if the borrower signs a waiver
- D. Refuse and explain that backdating constitutes fraud

---

112. An MLO receives a gift basket from a title company. The MLO should:

- A. Accept without concern
- B. Demand more valuable gifts
- C. Consider whether accepting creates an appearance of impropriety and follow company policy

D. Accept only from non-affiliated companies

---

113. Under the SAFE Act, MLOs must act with:

- A. Maximum profit focus
- B. Honesty and fair dealing
- C. Speed over accuracy
- D. Deference to employer regardless of legality

---

114. A borrower asks for advice on disputing accurate credit information to improve their score. The MLO should:

- A. Explain that disputing accurate information is improper and potentially fraudulent
- B. Provide dispute letter templates
- C. Recommend credit repair companies
- D. Help identify accounts to dispute

---

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

- A. Proceed quickly before they change their mind
- B. Document that they signed disclosures
- C. Have a family member explain
- D. Ensure genuine understanding, using interpretation services if necessary

---

116. Information discovered after closing reveals the borrower provided false income documents. The MLO had no prior knowledge. The MLO should:

- A. Do nothing since the loan closed
- B. Contact the borrower privately
- C. Report the discovered fraud through appropriate channels
- D. Only report if the loan defaults

---

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

- A. "Call for today's rates"
- B. "No one beats our rates—guaranteed lowest pricing!"
- C. "FHA and VA loans available"
- D. "Competitive rates available"

---

118. A borrower's credit report shows a debt they claim was paid. The MLO should:

- A. Require documentation of payoff before excluding the debt
- B. Accept the borrower's statement
- C. Include half the payment
- D. Exclude all disputed debts

---

119. An MLO suspects the property price is inflated and the seller will credit a large amount back to the buyer. This:

- A. Is common and acceptable
- B. Benefits the buyer so should proceed
- C. Is only concerning on refinances
- D. May indicate fraud and should be documented and reported

---

120. A borrower complains they didn't understand ARM adjustment terms despite signing disclosures. The MLO:

- A. Is protected because disclosures were signed
- B. Is only responsible for written information
- C. Has an obligation to ensure genuine understanding of material terms
- D. Should blame the underwriter

## Answer Key and Explanations

- 1. B.** (Name, income, Social Security number, property address, estimated property value, and mortgage loan amount sought) - TRID defines an application as the submission of these six specific pieces of information. Receipt of all six triggers the requirement to provide the Loan Estimate within 3 business days.
- 2. D.** (The creditor must cure the \$125 tolerance violation within 60 days of consummation) - Zero-tolerance fees cannot increase from the Loan Estimate to closing. The \$125 increase is a tolerance violation that must be cured by refunding the excess to the borrower within 60 days of consummation.
- 3. A.** (30 days) - Under ECOA Regulation B, creditors must provide adverse action notices within 30 days of taking action on a completed application. The notice must include specific reasons for denial or the applicant's right to request reasons.
- 4. C.** (12 months minimum, or the borrower may pay in full) - RESPA requires servicers to allow borrowers to repay escrow shortages over at least 12 months. Borrowers may choose to pay the shortage in full, but servicers cannot require lump-sum payment.
- 5. B.** (Higher-priced mortgage loan - HPML) - The APR exceeds APOR by 2.75% (8.25% - 5.5%). This exceeds the 1.5% HPML threshold for first-lien loans but is below the 6.5% HOEPA high-cost threshold, classifying it as an HPML.
- 6. A.** (78% based on original value and amortization schedule) - The Homeowners Protection Act requires automatic PMI termination when LTV reaches 78% based on the original property value and original amortization schedule, not current value or borrower estimates.
- 7. D.** (Saturday, April 12 at midnight) - The rescission period is 3 business days. Tuesday (closing) is day 0. Wednesday is day 1, Thursday is day 2, Friday is day 3. For rescission, Saturdays count as business days, so the period expires at midnight Saturday.
- 8. C.** (30 days) - Under FCRA, credit bureaus must complete investigations of consumer disputes within 30 days. This may be extended to 45 days if the consumer provides additional relevant information during the investigation period.
- 9. B.** (Commercial real estate loans) - HMDA requires reporting of residential mortgage loan originations, denials, and withdrawals. Commercial real estate loans are not covered under HMDA reporting requirements.
- 10. A.** (The following Monday) - Thursday is day 0 (application received). Friday is day 1, Saturday is day 2 (Saturdays count for LE timing), Sunday doesn't count. Monday is day 3. The Loan Estimate must be delivered by Monday.
- 11. C.** (Title company paying MLO \$200 for each customer referred) - RESPA Section 8 prohibits kickbacks and referral fees between settlement service providers. Payments from title companies to MLOs for referrals are illegal regardless of amount or disclosure.

**12. D.** (Provide a standardized measure of the cost of credit including certain fees) - The APR includes the interest rate plus certain finance charges spread over the loan term, providing borrowers with a standardized way to compare the true cost of different loan offers.

**13. B.** (Recording fees and fees for services the borrower could shop for but used the lender's list) - The 10% tolerance category includes recording fees and fees for services where the borrower could shop but chose a provider from the lender's written list of providers.

**14. A.** (\$1,057.29) - Monthly interest = Principal  $\times$  (Annual Rate  $\div$  12) =  $\$175,000 \times (0.0725 \div 12) = \$175,000 \times 0.006042 = \$1,057.29$ .

**15. C.** (Within a reasonable time after the account relationship is established) - The USA PATRIOT Act requires identity verification within a reasonable time after establishing the customer relationship. Institutions have procedures but aren't required to verify before every transaction.

**16. D.** (National origin) - ECOA prohibits discrimination based on national origin, race, color, religion, sex, marital status, age, receipt of public assistance, and good faith exercise of rights. Length of residence, DTI, and employment history are legitimate factors.

**17. B.** (Thursday) - The Closing Disclosure requires a 3-business-day waiting period. Monday (receipt) is day 0. Tuesday is day 1, Wednesday is day 2, Thursday is day 3. Thursday is the earliest consummation date.

**18. A.** (At the establishment of the customer relationship and annually thereafter) - GLBA requires privacy notices when the customer relationship is established and annually thereafter for continuing relationships, not just upon request or at closing.

**19. C.** (\$5,000) - SARs must be filed for suspected illegal activity involving transactions exceeding \$5,000. The \$10,000 threshold applies to Currency Transaction Reports for cash transactions, not SARs.

**20. D.** (\$8,000) - Discount points = Loan amount  $\times$  Point percentage =  $\$320,000 \times 2.5\% = \$320,000 \times 0.025 = \$8,000$ .

**21. B.** (3 business days of the changed circumstance) - When a valid changed circumstance occurs, the creditor must provide a revised Loan Estimate within 3 business days of learning of the change.

**22. A.** (Directing minority applicants only to certain neighborhoods based on racial composition) - Steering based on race violates the Fair Housing Act. Directing buyers to or away from neighborhoods based on racial composition is illegal regardless of intent.

**23. D.** (20 business days) - Under RESPA, servicers must return escrow balances within 20 business days of loan payoff, ensuring borrowers receive their escrowed funds promptly.

**24. C.** (This is a tolerance violation; the creditor must provide the full \$2,000 credit) - Lender credits are subject to zero tolerance. If the credit decreases from the Loan Estimate, the creditor must still provide the originally disclosed amount.

- 25. B.** (Purchase money mortgages on primary residences) - Rescission applies only to refinances and home equity transactions on primary residences. Purchase transactions have no rescission right regardless of property type.
- 26. A.** (April 14, or April 29 if extended) - Servicers must respond to notices of error within 30 days (April 14). This may be extended by 15 days with notice to the borrower, making the extended deadline April 29.
- 27. C.** (Note the information based on visual observation and surname for in-person applications) - When applicants decline to provide demographic information in person, ECOA requires MLOs to note the information based on visual observation and surname. Telephone and internet applications are left blank.
- 28. D.** (Consumer Financial Protection Bureau - CFPB) - The Dodd-Frank Act of 2010 created the CFPB with primary authority for consumer financial protection, consolidating authority previously spread across multiple agencies.
- 29. B.** (30 days after the escrow account computation year ending) - RESPA requires the Annual Escrow Statement within 30 days of the computation year ending, typically the anniversary of the escrow account.
- 30. A.** (8 hours annually) - The SAFE Act requires 8 hours of annual continuing education including 3 hours of federal law, 2 hours of ethics, 2 hours of non-traditional mortgage products, and 1 hour of elective content.
- 31. D.** (180 days) - After failing the national test three times, the waiting period increases to 180 days (6 months) before the fourth attempt. The first two failures require only 30-day waiting periods.
- 32. C.** (Take residential mortgage loan applications or negotiate loan terms for compensation) - The SAFE Act defines an MLO as someone who takes applications or negotiates terms for residential mortgage loans for compensation. Clerical work and referrals don't require licensure.
- 33. B.** (Conviction of a felony involving fraud within the past 7 years) - The SAFE Act bars licensure for felonies involving fraud, dishonesty, breach of trust, or money laundering. For certain offenses, the bar is permanent; for others, 7 years must pass.
- 34. A.** (30 days) - MLOs must update NMLS within 30 days of employment changes. Some states may require shorter notification periods, so MLOs should verify specific state requirements.
- 35. D.** (MLO employed by a federally chartered bank) - MLOs at federally chartered depository institutions (national banks, federal credit unions, federal savings associations) must register with NMLS but are exempt from state licensing requirements.
- 36. C.** (Provide public access to MLO licensing and disciplinary history) - The NMLS unique identifier allows consumers and regulators to access an MLO's licensing status, employment history, and disciplinary actions through the NMLS Consumer Access website.

**37. B.** (Engaging in fraud, misrepresentation, or dishonest dealing) - Fraud, misrepresentation, and dishonest dealing are grounds for license revocation. Low origination volume, declining applications, and changing employers are not grounds for revocation.

**38. A.** (3 hours of federal law, 3 hours of ethics, and 2 hours of non-traditional mortgage products) - SAFE Act pre-licensing education requires 20 hours total, including these specific subject matter requirements. States may require additional hours.

**39. D.** (Approve individual loan applications) - State regulators examine companies, review records, interview employees, and order restitution but do not approve individual loan applications. Lending decisions remain with lenders.

**40. C.** (120 days) - Temporary authority allows MLOs to originate in a new state for up to 120 days while their license application is pending, provided they have a valid license elsewhere and meet other requirements.

**41. B.** (Collecting documents and performing clerical tasks) - Unlicensed individuals may perform clerical and administrative tasks under supervision. Negotiating rates, offering terms, and discussing loan programs require MLO licensure.

**42. A.** (30 days) - After the first or second failed test attempt, the waiting period is 30 days. The waiting period increases to 180 days only after the third failure.

**43. D.** (\$361,250) - Loan amount = Purchase price - Down payment =  $\$425,000 - (15\% \times \$425,000) = \$425,000 - \$63,750 = \$361,250$ .

**44. C.** (85%) - LTV = Loan amount  $\div$  Property value =  $\$361,250 \div \$425,000 = 85\%$ . The down payment of 15% results in an LTV of 85%.

**45. B.** (85.53%) - CLTV uses the HELOC credit limit, not current balance.  $CLTV = (\$285,000 + \$40,000) \div \$380,000 = \$325,000 \div \$380,000 = 85.53\%$ .

**46. A.** (37%) - Back-end DTI = Total monthly debts  $\div$  Gross monthly income =  $\$3,108 \div \$8,400 = 37\%$ .

**47. D.** (11.5%) - The initial cap is 5%. Maximum at first adjustment = Initial rate + Initial cap =  $6.5\% + 5\% = 11.5\%$ . The fully indexed rate ( $5.0\% + 2.5\% = 7.5\%$ ) is irrelevant; the question asks for maximum possible.

**48. C.** (25% of the loan amount) - VA guarantees 25% of the loan amount up to the conforming limit for borrowers with full entitlement. This guarantee allows lenders to offer 100% financing.

**49. B.** (10%) - FHA requires 10% down payment for credit scores between 500-579. A 575 score falls in this range. Scores of 580 and above qualify for 3.5% down.

**50. A.** (Negative amortization) - QM loans prohibit negative amortization, interest-only payments, balloon payments, and terms exceeding 30 years. Fixed rates, escrows, and discount points are permitted.

- 51. D.** (Purchases existing loans from originators, providing liquidity) - The secondary market purchases loans from originators, allowing them to replenish capital for new lending. It doesn't originate, process, or underwrite loans.
- 52. C.** (\$1,265.63) - Monthly interest =  $\$225,000 \times (6.75\% \div 12) = \$225,000 \times 0.005625 = \$1,265.63$ .
- 53. B.** (Principal, Interest, Taxes, Insurance) - PITI represents the four components of a typical monthly mortgage payment: principal reduction, interest, property taxes, and hazard insurance.
- 54. A.** (Government-sponsored enterprises that purchase conforming loans) - Fannie Mae and Freddie Mac are GSEs that buy conforming loans from lenders and package them into mortgage-backed securities.
- 55. D.** (1% of the loan amount) - One discount point equals 1% of the loan amount. Points are prepaid interest used to reduce the interest rate.
- 56. C.** (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.
- 57. B.** (One closing for both construction and permanent financing) - Construction-to-permanent loans combine both phases into one closing, eliminating the cost and complexity of separate closings.
- 58. A.** (Allow an existing junior lien to remain junior when a new senior lien is created) - Subordination agreements allow junior lienholders to maintain their position when a new first mortgage is created, typically during refinances.
- 59. D.** (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.
- 60. C.** (A loan funded by a third party at closing while the originator closes in their name) - Table funding occurs when a warehouse lender provides funds at closing while the broker or correspondent closes the loan in their name.
- 61. B.** (\$7,300) - Base salary:  $\$78,000 \div 12 = \$6,500$ . Overtime:  $\$9,600 \div 12 = \$800$ . Total:  $\$6,500 + \$800 = \$7,300$  monthly.
- 62. A.** (Housing expenses only - PITIA) - The front-end ratio includes only housing costs: principal, interest, taxes, insurance, and association dues. The back-end ratio includes all debts.
- 63. D.** (Negative amortization) - Negative amortization occurs when payments don't cover all interest due, causing unpaid interest to be added to principal. The loan balance increases instead of decreasing.
- 64. C.** (Residential properties) - The sales comparison approach compares the subject property to recently sold comparable properties, making it most appropriate for residential properties with available comparables.

- 65. B.** (695) - When three credit scores are available, lenders use the middle score. Arranged in order: 682, 695, 710. The middle score is 695.
- 66. A.** (A fixed percentage added to the index to determine the interest rate) - The margin is a fixed percentage that remains constant throughout the loan. It's added to the current index value to calculate the interest rate at each adjustment.
- 67. D.** (3 business days of application) - TRID requires the Loan Estimate to be delivered within 3 business days of receiving the six pieces of information that constitute an application.
- 68. C.** (Must be sourced and documented) - Large deposits exceeding a threshold relative to income (typically 50%) must be documented. A \$20,000 deposit on \$6,000 monthly income (333%) requires sourcing documentation.
- 69. B.** (Purchase transactions only) - The "Your Home Loan Toolkit" (formerly the Settlement Cost Booklet) must be provided within 3 business days of application for purchase transactions only, not refinances or HELOCs.
- 70. A.** (5 years) - HPMLs require escrow accounts for property taxes and insurance for at least 5 years from consummation, protecting borrowers from payment shock.
- 71. D.** (Information received that differs from what the borrower originally provided) - Valid changed circumstances include information differing from what was provided, extraordinary events beyond anyone's control, or borrower-requested changes. Creditor errors don't qualify.
- 72. C.** (Donor's tax returns) - Gift letters must include the donor's relationship, gift amount, and statement that no repayment is expected. Donor's tax returns are not required on the gift letter, though ability to give may need verification.
- 73. B.** (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 self-employment earnings.
- 74. A.** (Fees paid to the creditor and fees for services where the creditor selected the provider) - Zero-tolerance fees cannot increase from the LE to closing. These include fees paid to the creditor and fees for creditor-selected services.
- 75. D.** (16 days - 15th through end of month) - Prepaid interest covers from closing through month-end. September 15 through September 30 = 16 days (counting the 15th). First payment covers the following full month.
- 76. C.** (Undiscovered defects in title existing before the policy date) - Title insurance protects against defects that existed before the policy was issued but weren't discovered during the title search.
- 77. B.** (At least 3 business days before consummation) - Appraisals must be delivered at least 3 business days before consummation. The borrower may waive this requirement only after receiving the appraisal.

**78. A.** (Request an explanation of the employment gap) - Employment gaps require investigation. The underwriter should obtain explanation of the gap before making decisions. Automatic approval or denial without investigation is inappropriate.

**79. D.** (31%) - FHA's standard maximum front-end DTI is 31%, with back-end at 43%. Automated underwriting may approve higher ratios with compensating factors.

**80. C.** (Recording fees and services the borrower could shop for but selected from lender's list) - The 10% tolerance category includes recording fees and fees for services where the borrower could shop but chose providers from the lender's written list.

**81. B.** (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.

**82. A.** (Determine if flood insurance is required based on FEMA maps) - Flood determinations identify whether a property is in a Special Flood Hazard Area using FEMA maps, triggering flood insurance requirements.

**83. D.** (Borrower's income using third-party documentation) - ATR requires verification of income, employment, assets, debts, and credit history using reliable third-party documentation, not just borrower statements.

**84. C.** (26%) - Front-end ratio = PITIA  $\div$  Gross income =  $\$2,470 \div \$9,500 = 26\%$ .

**85. B.** (15 days after the transfer date) - Under RESPA, the new servicer must send notice within 15 days after the effective transfer date. The transferring servicer must provide notice at least 15 days before transfer.

**86. A.** (Medical collections may be excluded from consideration) - Many conventional guidelines allow medical collections to be excluded from underwriting consideration, recognizing that medical debt may not accurately reflect creditworthiness.

**87. D.** (Loan terms remain unchanged; only ownership changes) - When loans are sold, all contractual terms remain binding. Only ownership of the loan and possibly servicing rights change; borrowers don't requalify.

**88. C.** (\$6,200) - Base income: \$5,200. Grossed-up VA disability:  $\$800 \times 1.25 = \$1,000$ . Total:  $\$5,200 + \$1,000 = \$6,200$ .

**89. B.** (3 business days after mailing) - When mailing the Closing Disclosure, creditors presume receipt 3 business days after mailing. This affects when consummation may occur.

**90. A.** (78.57%) - CLTV = (First mortgage + HELOC)  $\div$  Value =  $(\$240,000 + \$35,000) \div \$350,000 = \$275,000 \div \$350,000 = 78.57\%$ .

- 91. D.** (A release or satisfaction must be obtained and recorded) - Unreleased liens cloud title even when the debt was paid. A release or satisfaction must be obtained and recorded to clear the lien before closing.
- 92. C.** (APR increase above tolerance threshold) - 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.
- 93. B.** (Exclude the bonus due to lack of two-year history) - Variable income like bonuses requires two years of documented history to establish continuity. A one-year bonus cannot be included without historical consistency.
- 94. A.** (Income remaining after all debts and expenses, varying by family size and region) - VA residual income measures money remaining after all obligations, with requirements varying by family size and geographic region.
- 95. D.** (November 1) - Closing September 25 means the first payment is due November 1. The first payment must be at least 30 days from closing, and payments are due on the 1st of the month.
- 96. C.** (Decline to provide any target value and report the appraiser's inquiry) - Appraiser independence rules prohibit communicating desired values. An appraiser asking for target values violates independence standards and should be reported.
- 97. B.** (The debt may be excluded from DTI if fewer than 10 payments remain) - Many conventional guidelines allow exclusion of installment debts with fewer than 10 remaining payments from DTI calculations.
- 98. A.** (All applicants) - ECOA requires adverse action notices be provided to all applicants on a joint application, not just the primary applicant or specific individuals.
- 99. D.** (Violates the Loan Originator Rule prohibition on compensation based on loan terms) - Regulation Z prohibits MLO compensation based on loan terms other than principal amount. Paying more for higher rates violates this rule.
- 100. C.** (Explain this is occupancy fraud and refuse to proceed with false information) - Occupancy misrepresentation is federal fraud. MLOs must refuse to participate and explain the serious legal consequences for both parties.
- 101. B.** (A red flag requiring verification of employment legitimacy) - Inconsistent employer information on pay stubs suggests possible document falsification. Legitimate employers maintain consistent information.
- 102. A.** (Payment for goods or services actually furnished at fair market value) - RESPA permits reasonable payments for actual goods and services rendered. Kickbacks, fee splitting without services, and referral fees are prohibited.
- 103. D.** (Report to compliance and decline to proceed) - Suspected fraud requires reporting through proper channels and refusing to proceed. MLOs cannot participate in or ignore suspected document falsification.

**104. C.** (Decline to provide target values and report the appraiser's conduct) - Appraiser independence rules prohibit communicating desired values. Appraisers requesting targets have violated independence standards.

**105. B.** (Refusing to lend in a neighborhood based on racial composition) - Redlining violates fair lending laws. Risk-based pricing using credit scores and LTV is permitted; decisions based on neighborhood racial composition are not.

**106. A.** (Document this as it affects debt calculations and may violate program requirements) - Borrowed down payment funds create debt obligations affecting DTI and may violate program requirements for gift funds.

**107. D.** (Violates advertising regulations as an unsubstantiated claim) - "Guaranteed" claims are inherently misleading and violate Regulation N. No lender can guarantee approval or lowest rates.

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

**109. B.** (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. Tipping off SAR subjects is itself a violation.

**110. A.** (Document and disclose the relationship as it may indicate a non-arm's length transaction) - Undisclosed relationships between transaction parties are red flags. Non-arm's length transactions require disclosure and may affect terms.

**111. D.** (Refuse and explain that backdating constitutes fraud) - Backdating documents is falsification and fraud regardless of the reason. MLOs must refuse and explain the serious legal consequences.

**112. C.** (Consider whether accepting creates an appearance of impropriety and follow company policy) - Even small gifts may create appearance issues. MLOs should consider RESPA implications and follow employer gift policies.

**113. B.** (Honesty and fair dealing) - The SAFE Act requires MLOs to act with honesty and fair dealing in all transactions. Ethical conduct takes priority over profit or employer instructions.

**114. A.** (Explain that disputing accurate information is improper and potentially fraudulent) - Disputing accurate credit information is improper. MLOs should not assist with false disputes, which could constitute fraud.

**115. D.** (Ensure genuine understanding, using interpretation services if necessary) - Ethical obligations require ensuring borrowers truly understand loan terms. Language barriers require interpretation services.

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

**117. B.** ("No one beats our rates—guaranteed lowest pricing!") - Unsubstantiated guarantee claims violate Regulation N. General statements about availability without guarantees are permitted.

**118. A.** (Require documentation of payoff before excluding the debt) - Debts on credit reports are included unless documented as paid. Borrower statements alone are insufficient to exclude debts.

**119. D.** (May indicate fraud and should be documented and reported) - Inflated prices with large seller credits can indicate fraud schemes. MLOs must document concerns and report through appropriate channels.

**120. C.** (Has an obligation to ensure genuine understanding of material terms) - Ethical MLOs ensure borrowers understand material terms. Signatures don't fulfill the obligation to provide clear explanations.