

PRACTICE TEST 6

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

1. Under TRID, which of the following is NOT one of the six pieces of information that trigger an application?

- A. Borrower's credit score
- B. Borrower's name
- C. Property address
- D. Estimated property value

2. A borrower's Loan Estimate shows recording fees of \$125 and transfer taxes of \$1,500. At closing, recording fees are \$140 and transfer taxes are \$1,650. Which statement is accurate?

- A. Both fees are within tolerance
- B. Both fees exceed tolerance
- C. Recording fees exceed the 10% tolerance; transfer taxes have no tolerance limit
- D. Transfer taxes exceed tolerance; recording fees are within tolerance

3. Under ECOA, which of the following questions is PROHIBITED on a mortgage application?

- A. "What is your annual income?"
- B. "Do you plan to have children?"
- C. "What is your current employer?"
- D. "How long have you lived at your current address?"

4. A servicer's escrow account analysis reveals a deficiency of \$900. Under RESPA, how may the servicer collect this deficiency?

- A. Require immediate full payment within 10 days
- B. Require payment over 6 months
- C. Require payment over 24 months minimum
- D. Require payment over 12 months minimum, or allow the borrower to pay in full

5. Under TILA, the finance charge includes all of the following EXCEPT:

- A. Fees for a credit report obtained by the lender
- B. Mortgage broker fees
- C. Discount points
- D. Loan origination fees

6. A first-lien purchase loan has an APR of 5.75% when the APOR is 5.0%. This loan is classified as:

- A. High-cost mortgage under HOEPA

- B. Higher-priced mortgage loan (HPML)
- C. Standard loan not subject to HPML or HOEPA requirements
- D. Non-QM loan

7. Under the Homeowners Protection Act, a borrower may request PMI cancellation when LTV reaches:
- A. 78% based on original value
 - B. 80% based on original value
 - C. 75% based on current appraised value
 - D. 85% based on original value

8. A borrower closes on a home equity line of credit on their primary residence on Friday, May 9. All disclosures were properly provided. When does the rescission period expire?
- A. Monday, May 12
 - B. Sunday, May 11
 - C. Tuesday, May 13
 - D. Wednesday, May 14 at midnight

9. Under HMDA, which institution is EXEMPT from reporting requirements?
- A. A mortgage company that originated 15 closed-end mortgage loans in each of the two preceding years
 - B. A credit union that originated 50 closed-end mortgage loans in each of the two preceding years

- C. A mortgage company that originated 30 closed-end mortgage loans in each of the two preceding years
- D. A bank with assets over \$50 million that originated 40 closed-end loans annually

10. Under RESPA Section 8, which of the following is a PERMITTED payment?

- A. Title company paying \$100 to an MLO for each referral
- B. Real estate agent receiving \$250 from lender for each referred borrower
- C. Employer paying employee salary and bonus for loan production
- D. Appraiser giving gift cards to MLOs for repeat business

11. A creditor mails the Closing Disclosure on Monday. Under TRID's mailbox rule, when is the borrower presumed to have received it?

- A. Monday (same day)
- B. Thursday (3 business days later)
- C. Wednesday (2 business days later)
- D. Friday (4 business days later)

12. Under FCRA, a consumer who is denied credit based on information in a credit report must be:

- A. Provided a free copy of the credit report automatically
- B. Told only that a credit report was used
- C. Given the name of anyone who requested their report
- D. Informed of their right to obtain a free copy of the report from the credit bureau that provided it

13. A loan has a principal balance of \$310,000 at 6.875% interest. What is the monthly interest for the first month?

- A. \$1,776.04
- B. \$21,312.50
- C. \$2,131.25
- D. \$1,550.00

14. Under GLBA, consumers have the right to opt out of information sharing with:

- A. All parties, including affiliates
- B. Government regulators
- C. Nonaffiliated third parties
- D. Credit bureaus

15. Under the USA PATRIOT Act, financial institutions must file a Currency Transaction Report for cash transactions exceeding:

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

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

- A. The applicant's credit score only
- B. The lender's complete underwriting file
- C. Only the date of denial
- D. Specific reasons for the denial or notice of the right to request reasons

17. Under TRID, which change to a Closing Disclosure does NOT require a new 3-business-day waiting period?

- A. Change from fixed-rate to adjustable-rate loan
- B. Increase in property tax escrow estimate
- C. Addition of a prepayment penalty
- D. APR increase of 0.25% on a fixed-rate loan

18. A borrower pays 1.75 discount points on a \$260,000 loan. What is the dollar amount of the points?

- A. \$2,600
- B. \$4,550
- C. \$4,650
- D. \$2,275

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

- A. Application
- B. Closing or within 45 days of closing
- C. The first payment due date
- D. The end of the first year

20. A creditor receives an application on Wednesday at 4 PM. Thursday and Friday are regular business days. Saturday the office is closed. By when must the Loan Estimate be delivered?

- A. Thursday
- B. Friday
- C. The following Monday
- D. Saturday

21. Under the Fair Housing Act, which action constitutes illegal blockbusting?

- A. Inducing homeowners to sell by suggesting that people of a particular protected class are moving into the neighborhood
- B. Showing all available properties in a buyer's price range
- C. Advertising in multiple languages
- D. Offering buyer incentive programs

22. Under TRID, the 10% cumulative tolerance applies to:

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

23. A borrower's nontaxable Social Security income is \$2,400 monthly. Using a 25% gross-up, what is the qualifying income?

- A. \$2,400
- B. \$3,000
- C. \$1,800
- D. \$2,880

24. Under RESPA, a qualified written request must be acknowledged within:

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

25. Under TILA, the extended right of rescission (up to 3 years) applies when:

- A. The creditor failed to provide material disclosures or the notice of right to rescind
- B. The borrower simply changes their mind
- C. Property values decline after closing
- D. Interest rates increase after closing

26. Under the Dodd-Frank Act, which agency has primary rulemaking authority for most consumer financial protection laws?

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

27. A servicer receives a loss mitigation application from a borrower 40 days before a scheduled foreclosure sale. If the application is complete, the servicer must:

- A. Proceed with the foreclosure sale as scheduled
- B. Evaluate the application before the foreclosure sale and not proceed if the borrower is entitled to protection
- C. Wait 60 days before any action
- D. Immediately cancel the foreclosure

28. Under ECOA, when an applicant is denied, they have how many days to request specific reasons for the denial if not initially provided?

- A. 30 days
- B. 90 days
- C. 45 days
- D. 60 days

29. Under the BSA/AML, structuring transactions to avoid Currency Transaction Reports is:

- A. A federal crime
- B. Permitted if the customer requests it
- C. Only illegal for amounts over \$50,000
- D. Acceptable for regular customers

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

- A. 25 hours with no specific content requirements
- B. 15 hours of federal law only
- C. 20 hours including 3 hours federal law, 3 hours ethics, and 2 hours non-traditional mortgage products
- D. 10 hours of state-specific content only

31. An MLO fails the SAFE MLO test for the third time. What waiting period applies before the fourth attempt?

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

32. Under the SAFE Act, which individual is required to be licensed (not just registered)?

- A. MLO employed by a federal credit union
- B. MLO employed by a national bank
- C. Real estate agent who only refers buyers to lenders
- D. MLO employed by a state-licensed mortgage company

33. Which of the following is grounds for denial of an MLO license?

- A. A felony conviction involving dishonesty 5 years ago
- B. Previous employment in an unrelated field
- C. Living in a different state than the licensing state
- D. Having multiple state licenses

34. An MLO's sponsoring company has its license suspended. What happens to the MLO's license?

- A. The MLO license is automatically revoked
- B. The MLO must immediately retake the national test

C. The MLO cannot originate under that company but may transfer sponsorship to another licensed company

D. The MLO license remains fully active

35. The NMLS unique identifier must appear on:

A. Only the borrower's personal documents

B. All loan documents, business cards, advertisements, and websites

C. Only government loan applications

D. Only the final closing documents

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

A. Within the first quarter of each year

B. At any time before employment

C. Only when changing employers

D. Annually by December 31

37. A state regulator examining a licensed mortgage company has the authority to do all of the following EXCEPT:

A. Set the interest rates the company must offer

B. Review loan files and records

- C. Interview company employees
- D. Impose civil penalties for violations

38. Under temporary authority provisions, an MLO may originate in a new state while their application is pending only if:

- A. They have passed that state's test component
- B. They have completed 30 days of employment in the new state
- C. They have a valid license in another state with no disciplinary actions and have submitted a complete application
- D. They have been licensed for at least 5 years

39. Which activity requires an MLO license?

- A. Processing loan documents under supervision
- B. Negotiating loan terms for compensation with a non-depository lender
- C. Providing real estate referrals only
- D. Performing clerical tasks for a mortgage company

40. Under state law, an MLO's failure to complete continuing education by the deadline results in:

- A. Automatic license revocation
- B. A warning letter only

- C. No consequence if completed within 30 days
- D. License expiration or inactivation requiring reinstatement

41. The SAFE Act requires background checks that include:

- A. Fingerprinting for FBI criminal history and credit report review
- B. Medical history review
- C. Political affiliation verification
- D. Social media audit

42. Under the SAFE Act, an individual who only performs clerical or administrative tasks:

- A. Must be licensed as an MLO
- B. Must be registered with NMLS
- C. Is not required to be licensed or registered as an MLO
- D. Must pass the national test

43. A borrower purchases a home for \$375,000 with 20% down. What is the loan amount?

- A. \$75,000
- B. \$300,000
- C. \$375,000

D. \$325,000

44. Using the loan amount from Question 43, if the borrower pays 1.5 discount points, what is the cost?

A. \$3,750

B. \$3,000

C. \$5,625

D. \$4,500

45. A property is valued at \$450,000. The first mortgage is \$315,000 and there is a HELOC with a \$60,000 limit (current balance \$45,000). What is the CLTV?

A. 83.33%

B. 80%

C. 70%

D. 75%

46. A borrower has gross monthly income of \$9,600 and total monthly debts of \$3,840. What is the back-end DTI ratio?

A. 35%

B. 45%

C. 40%

D. 50%

47. A 5/1 ARM has an initial rate of 6.25%, margin of 2.5%, current index of 4.75%, and cap structure of 2/2/5. What is the maximum rate at the first adjustment?

- A. 7.25%
- B. 8.25%
- C. 11.25%
- D. 9.25%

48. The FHA upfront mortgage insurance premium (UFMIP) is currently:

- A. 0.85% of the loan amount
- B. 1.0% of the loan amount
- C. 2.0% of the loan amount
- D. 1.75% of the base loan amount

49. Under VA loan guidelines, which borrower is NOT eligible for VA loan benefits?

- A. A civilian who never served in the military
- B. An active-duty service member with 90 days of service
- C. A veteran with an honorable discharge
- D. A surviving spouse of a veteran who died in service

50. A Qualified Mortgage must have a debt-to-income ratio generally not exceeding:

- A. 36%
- B. 50%
- C. 43% (or as approved by GSE automated underwriting)
- D. 28%

51. The primary market in mortgage lending refers to:

- A. Where government loans are insured
- B. Where loans are originated between lenders and borrowers
- C. The secondary mortgage market
- D. Where existing loans are bought and sold

52. A loan of \$195,000 at 7.0% annual interest has a first-month interest payment of:

- A. \$13,650
- B. \$975.00
- C. \$1,137.50
- D. \$1,137.50

53. Which government agency guarantees VA loans?

- A. Department of Veterans Affairs
- B. Federal Housing Administration
- C. Fannie Mae
- D. USDA

54. The conforming loan limit is set by:

- A. Individual lenders
- B. State regulators
- C. The Federal Housing Finance Agency (FHFA)
- D. HUD

55. A jumbo loan is a loan that:

- A. Has an adjustable rate
- B. Exceeds the conforming loan limits
- C. Is insured by FHA
- D. Is guaranteed by VA

56. An interest-only loan features:

- A. No interest charges during the initial period
- B. A balloon payment at the end
- C. Negative amortization
- D. Payments that cover only interest with no principal reduction during the interest-only period

57. The sales comparison approach to appraisal involves:

- A. Comparing the subject property to recently sold similar properties
- B. Calculating the cost to rebuild the property
- C. Analyzing the income the property could generate
- D. Using tax assessments only

58. A borrower's three credit scores are 705, 688, and 721. Which score is used for qualification?

- A. 721
- B. 688
- C. 705
- D. 704 (the average)

59. PITI stands for:

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

60. A loan with a large final payment at the end of the term is called a:

- A. Graduated payment mortgage
- B. Interest-only loan
- C. Reverse mortgage
- D. Balloon mortgage

61. A borrower earns \$72,000 annually and receives \$7,200 annually in documented, stable bonus income. What is the monthly qualifying income?

- A. \$6,600
- B. \$6,000
- C. \$7,200
- D. \$5,400

62. Private mortgage insurance protects:

- A. The borrower against job loss
- B. The property against fire damage

- C. The lender against borrower default
- D. The title company against recording errors

63. A construction loan typically features:

- A. Fixed payments throughout construction
- B. Interest-only payments on amounts drawn during construction
- C. No payments until construction is complete
- D. Negative amortization

64. Fannie Mae and Freddie Mac purchase loans from lenders and:

- A. Service all loans they purchase
- B. Originate loans directly to borrowers
- C. Insure loans against default
- D. Package them into mortgage-backed securities

65. The margin on an ARM is:

- A. A fixed percentage added to the index to calculate the interest rate
- B. The same as the index
- C. The maximum rate the loan can reach

D. The profit margin for the borrower

66. Subordination allows:

A. A borrower to refinance without paying off a HELOC

B. A senior lien to become junior

C. An existing junior lien to remain junior when a new senior lien is created

D. Release of all liens on a property

67. Under TRID, a Loan Estimate must be delivered within:

A. 7 business days of application

B. 3 business days of application

C. 24 hours of application

D. 5 business days of application

68. A borrower's bank statements show a \$15,000 deposit when their monthly income is \$4,500. This deposit:

A. Can be ignored if under \$20,000

B. Requires only verbal explanation

C. Is automatically acceptable

D. Must be sourced and documented as it exceeds 50% of monthly income

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

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

70. For an HPML, an escrow account for taxes and insurance must be maintained for at least:

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

71. A valid changed circumstance under TRID includes:

- A. The creditor wanting to change its profit margin
- B. An extraordinary event beyond anyone's control affecting settlement charges
- C. The creditor discovering it underestimated fees
- D. The loan officer forgetting to include a fee

72. Gift funds for down payment must be documented with:

- A. Only the deposit slip showing funds in borrower's account
- B. Only verbal confirmation from the donor
- C. The donor's complete tax returns
- D. A gift letter, evidence of donor's ability to give, and evidence of transfer

73. Self-employed borrowers typically must provide how many years of tax returns?

- A. Two years of personal and business tax returns
- B. One year only
- C. Three years
- D. No tax returns if they provide a CPA letter

74. Which fees are subject to zero tolerance under TRID?

- A. Recording fees
- B. Services the borrower can shop for
- C. Fees paid to the creditor and fees for creditor-selected services
- D. Property insurance

75. A borrower closes on September 10. How many days of prepaid interest will be collected?

- A. 10 days
- B. 21 days (September 10-30)
- C. 30 days
- D. 20 days

76. Title insurance protects against:

- A. Future changes in property value
- B. Borrower default on the loan
- C. Damage from natural disasters
- D. Defects in title that existed before the policy was issued but were undiscovered

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

- A. 3 business days
- B. 7 business days
- C. 5 business days
- D. 1 business day

78. A borrower's VOE shows employment of 4 months after a 2-month gap. The underwriter should:

- A. Deny the loan automatically
- B. Approve based on current income only
- C. Request an explanation of the employment gap
- D. Ignore all previous employment

79. The standard FHA maximum front-end DTI ratio is:

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

80. When an appraisal comes in lower than the purchase price, the LTV is calculated using:

- A. The purchase price
- B. The average of both values
- C. The higher value
- D. The lower of purchase price or appraised value

81. A flood determination is required to:

- A. Determine if flood insurance is required based on FEMA maps
- B. Calculate flood insurance premiums

- C. Assess existing flood damage
- D. Measure property elevation

82. Under the ATR rule, lenders must verify:

- A. The borrower's political affiliation
- B. The borrower's religious beliefs
- C. Income, employment, assets, debts, and credit history
- D. Only the borrower's stated income

83. A borrower's monthly income is \$7,200 and proposed PITIA is \$1,872. What is the front-end ratio?

- A. 30%
- B. 26%
- C. 28%
- D. 24%

84. Under RESPA, the new servicer must send notice of a servicing transfer within:

- A. 30 days before transfer
- B. 3 business days of transfer
- C. 45 days of transfer

D. 15 days after the transfer date

85. A borrower's credit report shows a judgment. Under conventional guidelines, this typically must be:

A. Paid or in a payment plan before closing

B. Ignored if over 2 years old

C. Paid only if over \$5,000

D. Disclosed but not necessarily resolved

86. The income approach to appraisal is most appropriate for:

A. Single-family residences

B. Vacant land

C. Income-producing properties

D. New construction

87. A borrower earns \$5,800 monthly and receives \$1,200 monthly in nontaxable child support. Using a 25% gross-up, what is total qualifying income?

A. \$7,000

B. \$7,300

C. \$6,600

D. \$5,800

88. Under TRID, if the APR on a fixed-rate loan increases by more than what amount, a new 3-day waiting period is required?

- A. Any increase
- B. 0.25%
- C. 0.50%
- D. 0.125% (1/8 of a percent)

89. A borrower has a first mortgage of \$280,000 and wants a \$45,000 HELOC. Home value is \$425,000. What is the proposed CLTV?

- A. 76.47%
- B. 65.88%
- C. 80%
- D. 70%

90. A title search reveals an easement on the property. This typically:

- A. Prevents the loan from closing
- B. Requires removal before closing
- C. Is disclosed to the buyer but may not prevent closing depending on its nature
- D. Has no impact on the transaction

91. Under TRID, which event would NOT require a revised Loan Estimate?

- A. Borrower changes the loan amount requested
- B. The creditor discovers it underestimated its own fees
- C. An unexpected survey reveals boundary issues
- D. The appraisal comes in lower than expected

92. A borrower's application shows annual income of \$90,000. They also received overtime of \$6,000 last year only. How should the overtime be treated?

- A. Add the full overtime
- B. Average over two years
- C. Include 50% of the overtime
- D. Exclude due to lack of two-year history

93. For VA loans, the residual income requirement:

- A. Varies by family size and geographic region
- B. Is the same for all borrowers nationwide
- C. Only considers housing expenses
- D. Uses the same DTI limits as FHA

94. A borrower closes on October 20. When is the first mortgage payment typically due?

- A. November 1
- B. November 20
- C. December 1
- D. October 31

95. An MLO orders an appraisal. The appraiser asks what value is needed for loan approval. The MLO should:

- A. Provide the purchase price
- B. Decline to provide target values and report the appraiser's conduct
- C. Tell the appraiser to add 10% to the purchase price
- D. Provide the minimum value needed

96. A borrower has a car payment of \$380 with 11 remaining payments. Under conventional guidelines, this debt:

- A. May be excluded from DTI
- B. Is automatically disqualifying
- C. Must be paid in full before closing
- D. Must be included in DTI calculations as it has 10 or more payments remaining

97. Under ECOA, when co-applicants apply together, adverse action notice must be sent to:

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

98. 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. 20 business days
- D. 45 calendar days

99. An MLO's employer offers a bonus structure that pays more for loans with higher interest rates. This compensation structure:

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

100. A borrower asks the MLO to mark a property as owner-occupied when they plan to use it as a rental. The MLO should:

- A. Follow the borrower's request since they signed the application
- B. Mark it as requested but document their concern
- C. Let the underwriter make the final determination
- D. Explain this constitutes occupancy fraud and refuse to proceed with false information

101. A borrower's pay stubs show different employer names on consecutive stubs. The MLO should:

- A. Treat this as a red flag and verify employment legitimacy
- B. Ignore it as a clerical error
- C. Accept the borrower's verbal explanation
- D. Proceed if the income amounts are consistent

102. Under RESPA Section 8, which payment arrangement is PERMITTED?

- A. Title company paying MLO for referrals
- B. Real estate agent receiving fees from lender for referrals
- C. Payment for goods or services actually provided at fair market value
- D. Fee splitting among settlement service providers without services rendered

103. An MLO suspects a borrower has altered bank statements. The appropriate action is:

- A. Proceed if other documentation supports the loan
- B. Report to compliance and decline to proceed with the application
- C. Help the borrower correct the statements
- D. Only report if the loan amount exceeds \$500,000

104. An appraiser asks the MLO for a target value to make the loan work. The MLO should:

- A. Provide the purchase price since it's public record
- B. Suggest adding a safety margin to the purchase price
- C. Tell the appraiser the minimum value needed
- D. Decline to provide any target value and report the appraiser's inquiry

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

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

106. A borrower discloses that their down payment was borrowed from a relative with expected repayment. The MLO should:

- A. Proceed since the funds are in the account
- B. Suggest the borrower not mention the repayment requirement

- C. Document this information as it creates a debt obligation affecting qualification
- D. Only be concerned if the repayment is in a written agreement

107. An MLO's advertisement claims "Guaranteed Lowest Rates!" This advertisement:

- A. Is acceptable with proper disclaimers
- B. Violates advertising regulations as an unsubstantiated and misleading claim
- C. Is permitted if the MLO's rates are competitive
- D. Is only prohibited for government loan programs

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

- A. Is automatically fraudulent
- B. Disqualifies the borrower from all loan programs
- C. Should be ignored as personal matters
- D. Requires additional verification to confirm legitimate employment and income

109. Information that a Suspicious Activity Report has been filed:

- A. Must be disclosed to the borrower for transparency
- B. Can be shared with the real estate agent
- C. Should be noted on the Closing Disclosure

D. Must never be disclosed to the subject of the SAR

110. An MLO learns that a real estate agent in the transaction is the borrower's sibling. This was not previously disclosed. The MLO should:

- A. Ignore it as it's not relevant to the loan
- B. Congratulate them on working together
- C. Document and disclose the relationship as it indicates a non-arm's length transaction
- D. Proceed only if the agent isn't receiving a commission

111. A borrower asks the MLO to backdate a rate lock agreement. The MLO should:

- A. Comply if it's only a few days
- B. Refuse and explain that backdating any document constitutes fraud
- C. Backdate it but note the actual date elsewhere in the file
- D. Comply if the borrower signs a waiver

112. An MLO receives an expensive gift from a title company representative. The MLO should:

- A. Accept it since there's no explicit quid pro quo
- B. Accept if under \$500
- C. Accept only from companies they don't regularly use

D. Decline or follow company policy, as accepting may violate RESPA and create appearance of impropriety

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

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

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

- A. Proceed quickly before the borrower changes their mind
- B. Have a family member explain the terms
- C. Ensure genuine understanding using qualified interpretation services if necessary
- D. Document that the borrower signed all disclosures

115. After closing, an MLO discovers that a borrower provided falsified pay stubs. The MLO had no prior knowledge. 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 matter privately
- D. Only report if the loan goes into default

116. Under Regulation N (Mortgage Acts and Practices - Advertising), which claim is PROHIBITED?

- A. "Competitive rates available"
- B. "FHA and VA loans offered"
- C. "Call for current rates"
- D. "Guaranteed approval for all applicants!"

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

- A. Require documentation proving the debt was paid before excluding it from DTI
- B. Accept the borrower's statement without documentation
- C. Exclude all disputed debts automatically
- D. Include only half the payment amount

118. An MLO suspects the sales price on a purchase contract is inflated with a large credit back to the buyer. This:

- A. Is a common practice that benefits buyers
- B. Is only concerning on refinance transactions
- C. May indicate fraud and should be documented and reported

D. Is acceptable if the appraisal supports the price

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

- A. Is fully protected because disclosures were signed
- B. Has an obligation to ensure borrowers genuinely understand material loan terms
- C. Is only responsible for what's in writing
- D. Should blame the closing agent

120. An MLO is pressured by management to approve a loan that doesn't meet guidelines because "we need the volume." The MLO should:

- A. Approve the loan to meet sales targets
- B. Approve but document their objections
- C. Quit immediately without documentation
- D. Refuse to approve non-compliant loans and document the pressure

Answer Key and Explanations

- 1. A.** (Borrower's credit score) - The six pieces of information triggering an application under TRID are: borrower's name, income, Social Security number, property address, estimated property value, and loan amount sought. Credit score is not one of the six triggers.
- 2. C.** (Recording fees exceed the 10% tolerance; transfer taxes have no tolerance limit) - Recording fees are subject to 10% tolerance. The \$15 increase on \$125 (12%) exceeds tolerance. Transfer taxes have no tolerance limit, so the \$150 increase is permitted.
- 3. B.** ("Do you plan to have children?") - ECOA prohibits questions about childbearing intentions as they relate to familial status and sex discrimination. Questions about income, employer, and length of residence are permissible underwriting inquiries.
- 4. D.** (Require payment over 12 months minimum, or allow the borrower to pay in full) - RESPA requires servicers to allow borrowers to repay escrow deficiencies over at least 12 months. Borrowers may choose to pay in full, but servicers cannot mandate lump-sum payment.
- 5. A.** (Fees for a credit report obtained by the lender) - Credit report fees paid to unaffiliated third parties are excluded from the finance charge under TILA. Mortgage broker fees, discount points, and origination fees are included.
- 6. C.** (Standard loan not subject to HPML or HOEPA requirements) - The APR exceeds APOR by only 0.75% (5.75% - 5.0%). This is below the 1.5% HPML threshold for first-lien loans, making it a standard loan without special requirements.
- 7. B.** (80% based on original value) - Under the Homeowners Protection Act, borrowers may request PMI cancellation when LTV reaches 80% based on original value. Automatic termination occurs at 78%.
- 8. D.** (Wednesday, May 14 at midnight) - Friday (closing) is day 0. Saturday is day 1, Sunday doesn't count, Monday is day 2, Tuesday is day 3. The rescission period expires at midnight on the third business day, which is Wednesday, May 14.
- 9. A.** (A mortgage company that originated 15 closed-end mortgage loans in each of the two preceding years) - HMDA requires reporting for institutions that originated at least 25 closed-end mortgage loans in each of the two preceding calendar years. A company originating only 15 loans annually falls below this threshold and is exempt from HMDA reporting requirements.
- 10. C.** (Employer paying employee salary and bonus for loan production) - RESPA Section 8 exempts employer-employee compensation from the prohibition on referral fees. Payments between separate businesses for referrals are prohibited.
- 11. B.** (Thursday - 3 business days later) - Under TRID's mailbox rule, when the Closing Disclosure is mailed, the creditor presumes receipt 3 business days after mailing. Monday + 3 business days = Thursday.

12. D. (Informed of their right to obtain a free copy of the report from the credit bureau that provided it) - Under FCRA, when adverse action is based on credit report information, consumers must be informed of their right to a free copy from the credit bureau within 60 days.

13. A. (\$1,776.04) - Monthly interest = Principal \times (Annual Rate \div 12) = $\$310,000 \times (0.06875 \div 12) = \$310,000 \times 0.005729 = \$1,776.04$.

14. C. (Nonaffiliated third parties) - GLBA gives consumers the right to opt out of information sharing with nonaffiliated third parties. Consumers cannot opt out of sharing with affiliates, for legally required purposes, or with credit bureaus.

15. B. (\$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.

16. D. (Specific reasons for the denial or notice of the right to request reasons) - ECOA requires adverse action notices to include specific reasons for denial or inform applicants of their right to request reasons within 60 days.

17. B. (Increase in property tax escrow estimate) - Only three specific changes to the Closing Disclosure trigger a new 3-business-day waiting period: (1) APR increase exceeding tolerance (1/8% for fixed-rate, 1/4% for ARM), (2) change in loan product (such as fixed to adjustable), and (3) addition of a prepayment penalty. Changes to escrow estimates, recording fees, or other closing costs do NOT require a new waiting period. Option A (product change), C (prepayment penalty addition), and D (0.25% APR increase on fixed-rate exceeds 1/8% threshold) all trigger new waiting periods.

18. B. (\$4,550) - Discount points = Loan amount \times Point percentage = $\$260,000 \times 1.75\% = \$260,000 \times 0.0175 = \$4,550$.

19. B. (Closing or within 45 days of closing) - Under RESPA, the initial escrow statement must be provided at closing or within 45 days of establishing the escrow account.

20. D. (Saturday) - Wednesday is day 0. Thursday is day 1, Friday is day 2, Saturday is day 3. For Loan Estimate timing, Saturdays count as business days. The LE must be delivered by Saturday.

21. A. (Inducing homeowners to sell by suggesting that people of a particular protected class are moving into the neighborhood) - Blockbusting is the illegal practice of inducing panic selling by suggesting neighborhood demographic changes based on protected classes.

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

23. B. (\$3,000) - Gross-up calculation: $\$2,400 \times 1.25 = \$3,000$. The 25% gross-up converts nontaxable income to its taxable equivalent for qualification purposes.

- 24. D.** (5 business days) - Under RESPA, servicers must acknowledge receipt of qualified written requests within 5 business days. The substantive response must follow within 30 days.
- 25. A.** (The creditor failed to provide material disclosures or the notice of right to rescind) - The extended 3-year rescission period applies when creditors fail to provide required material disclosures or the rescission notice. It doesn't apply when borrowers simply change their minds.
- 26. C.** (Consumer Financial Protection Bureau - CFPB) - The Dodd-Frank Act gave the CFPB primary rulemaking authority for most consumer financial protection laws, consolidating authority from multiple agencies.
- 27. B.** (Evaluate the application before the foreclosure sale and not proceed if the borrower is entitled to protection) - When a complete loss mitigation application is received more than 37 days before a foreclosure sale, the servicer must evaluate it before proceeding.
- 28. D.** (60 days) - Under ECOA, if the adverse action notice doesn't include specific reasons, the applicant has 60 days to request them in writing.
- 29. A.** (A federal crime) - Structuring transactions to avoid CTR requirements is a federal crime under the Bank Secrecy Act, regardless of whether the underlying funds are legitimate.
- 30. C.** (20 hours including 3 hours federal law, 3 hours ethics, and 2 hours non-traditional mortgage products) - SAFE Act pre-licensing education requires 20 hours with specific content requirements. States may require additional hours.
- 31. B.** (180 days) - After failing the SAFE MLO test three times, the waiting period increases to 180 days (6 months) before the fourth attempt. First and second failures require only 30-day waits.
- 32. D.** (MLO employed by a state-licensed mortgage company) - MLOs at non-depository institutions (mortgage companies, brokers) must be state licensed. MLOs at federally chartered institutions (banks, credit unions) are registered only.
- 33. A.** (A felony conviction involving dishonesty 5 years ago) - The SAFE Act bars licensure for felonies involving fraud, dishonesty, or breach of trust. For certain offenses, the bar is permanent; for others, 7 years must pass.
- 34. C.** (The MLO cannot originate under that company but may transfer sponsorship to another licensed company) - Company license suspension prevents MLOs from originating under that sponsorship, but their individual licenses remain valid for transfer.
- 35. B.** (All loan documents, business cards, advertisements, and websites) - The NMLS unique identifier must appear on all loan documents, business cards, advertisements, websites, and any other materials related to mortgage origination.
- 36. D.** (Annually by December 31) - Continuing education must be completed annually by December 31 of each year. Failure to complete CE results in license expiration or inactivation.

- 37. A.** (Set the interest rates the company must offer) - State regulators examine companies, review records, interview employees, and impose penalties, but they don't set interest rates for individual companies.
- 38. C.** (They have a valid license in another state with no disciplinary actions and have submitted a complete application) - Temporary authority requires a valid license elsewhere, a clean disciplinary record, and a pending complete application in the new state.
- 39. B.** (Negotiating loan terms for compensation with a non-depository lender) - Taking applications or negotiating terms for compensation requires MLO licensure. Clerical tasks, processing under supervision, and referrals don't require licensure.
- 40. D.** (License expiration or inactivation requiring reinstatement) - Failure to complete CE by the deadline results in license expiration or inactivation. Reinstatement requires completing CE and following state procedures.
- 41. A.** (Fingerprinting for FBI criminal history and credit report review) - SAFE Act background checks include fingerprinting for FBI criminal history and credit report review. Medical, political, and social media reviews are not required.
- 42. C.** (Is not required to be licensed or registered as an MLO) - Individuals performing only clerical or administrative tasks are not considered MLOs and don't require licensure or registration under the SAFE Act.
- 43. B.** (\$300,000) - Loan amount = Purchase price - Down payment = \$375,000 - (20% × \$375,000) = \$375,000 - \$75,000 = \$300,000.
- 44. D.** (\$4,500) - Discount points = Loan amount × Point percentage = \$300,000 × 1.5% = \$300,000 × 0.015 = \$4,500.
- 45. A.** (83.33%) - CLTV uses HELOC credit limit, not current balance. $CLTV = (\$315,000 + \$60,000) \div \$450,000 = \$375,000 \div \$450,000 = 83.33\%$.
- 46. C.** (40%) - Back-end DTI = Total monthly debts ÷ Gross monthly income = \$3,840 ÷ \$9,600 = 40%.
- 47. B.** (8.25%) - Initial rate is 6.25%. First adjustment cap is 2%. Maximum at first adjustment = 6.25% + 2% = 8.25%. The cap limits the increase regardless of the fully indexed rate.
- 48. D.** (1.75% of the base loan amount) - The FHA upfront mortgage insurance premium is currently 1.75% of the base loan amount and can be financed into the loan.
- 49. A.** (A civilian who never served in the military) - VA loan eligibility requires military service. Civilians without military service are not eligible for VA loans.
- 50. C.** (43% or as approved by GSE automated underwriting) - The general QM DTI limit is 43%, though GSE-eligible loans may exceed this if approved through automated underwriting.

- 51. B.** (Where loans are originated between lenders and borrowers) - The primary market is where mortgage loans originate—the transaction between lender and borrower.
- 52. D.** (\$1,137.50) - Monthly interest = $\$195,000 \times (7.0\% \div 12) = \$195,000 \times 0.005833 = \$1,137.50$.
- 53. A.** (Department of Veterans Affairs) - VA loans are guaranteed by the Department of Veterans Affairs, not insured like FHA loans.
- 54. C.** (The Federal Housing Finance Agency - FHFA) - FHFA sets conforming loan limits annually based on home price changes, as required by the Housing and Economic Recovery Act.
- 55. B.** (Exceeds the conforming loan limits) - Jumbo loans exceed conforming loan limits set by FHFA and are not eligible for purchase by Fannie Mae or Freddie Mac.
- 56. D.** (Payments that cover only interest with no principal reduction during the interest-only period) - Interest-only loans require payments covering only interest during the initial period, with no principal reduction.
- 57. A.** (Comparing the subject property to recently sold similar properties) - The sales comparison approach analyzes recent sales of comparable properties, adjusting for differences to estimate value.
- 58. C.** (705) - When three credit scores are available, lenders use the middle score. Arranged in order: 688, 705, 721. The middle score is 705.
- 59. B.** (Principal, Interest, Taxes, Insurance) - PITI represents the four main components of a monthly mortgage payment.
- 60. D.** (Balloon mortgage) - Balloon mortgages feature a large final payment at the end of the term, typically after a period of smaller payments.
- 61. A.** (\$6,600) - Base salary: $\$72,000 \div 12 = \$6,000$. Bonus: $\$7,200 \div 12 = \600 . Total: $\$6,000 + \$600 = \$6,600$.
- 62. C.** (The lender against borrower default) - PMI protects lenders against losses when borrowers default on loans with LTV above 80%.
- 63. B.** (Interest-only payments on amounts drawn during construction) - Construction loans typically feature interest-only payments on funds disbursed during the construction phase.
- 64. D.** (Package them into mortgage-backed securities) - Fannie Mae and Freddie Mac purchase loans from originators and package them into mortgage-backed securities for sale to investors.
- 65. A.** (A fixed percentage added to the index to calculate the interest rate) - The margin is a constant percentage added to the current index value to determine the ARM's interest rate at each adjustment.

- 66. C.** (An existing junior lien to remain junior when a new senior lien is created) - Subordination agreements allow junior liens to maintain their position when borrowers refinance their first mortgage.
- 67. B.** (3 business days of application) - TRID requires the Loan Estimate within 3 business days of receiving the six pieces of information constituting an application.
- 68. D.** (Must be sourced and documented as it exceeds 50% of monthly income) - Large deposits exceeding 50% of monthly income must be sourced. \$15,000 is 333% of \$4,500 monthly income, requiring documentation.
- 69. A.** (Purchase transactions) - The "Your Home Loan Toolkit" must be provided within 3 business days of application for purchase transactions only.
- 70. C.** (5 years) - HPMLs require escrow accounts for at least 5 years from consummation to protect borrowers from payment shock.
- 71. 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.
- 72. D.** (A gift letter, evidence of donor's ability to give, and evidence of transfer) - Complete gift documentation includes the gift letter, proof the donor had funds to give, and evidence of actual transfer.
- 73. A.** (Two years of personal and business tax returns) - Self-employed borrowers typically must provide two years of both personal and business tax returns.
- 74. C.** (Fees paid to the creditor and fees for creditor-selected services) - Zero-tolerance fees cannot increase from LE to closing. These include lender fees and fees for services selected by the creditor.
- 75. B.** (21 days - September 10-30) - Prepaid interest covers from closing through month-end. September 10 through September 30 inclusive = 21 days.
- 76. D.** (Defects in title that existed before the policy was issued but were undiscovered) - Title insurance protects against pre-existing defects not discovered during the title search.
- 77. A.** (3 business days) - Appraisals must be delivered at least 3 business days before consummation. Borrowers may waive this only after receiving the appraisal.
- 78. C.** (Request an explanation of the employment gap) - Employment gaps require explanation before making underwriting decisions. The gap should be documented and evaluated.
- 79. B.** (31%) - FHA's standard maximum front-end DTI is 31%, with back-end at 43%. Higher ratios may be approved with compensating factors.
- 80. D.** (The lower of purchase price or appraised value) - LTV calculations use the lesser of purchase price or appraised value to prevent inflated financing.

- 81. A.** (Determine if flood insurance is required based on FEMA maps) - Flood determinations identify whether properties are in Special Flood Hazard Areas requiring flood insurance.
- 82. C.** (Income, employment, assets, debts, and credit history) - ATR requires verification of these factors using reliable third-party documentation.
- 83. B.** (26%) - Front-end ratio = PITIA \div Gross income = $\$1,872 \div \$7,200 = 26\%$.
- 84. D.** (15 days after the transfer date) - Under RESPA, the new servicer must send notice within 15 days after the effective transfer date.
- 85. A.** (Paid or in a payment plan before closing) - Judgments typically must be satisfied or have an acceptable payment plan in place before closing conventional loans.
- 86. C.** (Income-producing properties) - The income approach calculates value based on potential income, making it most appropriate for rental and commercial properties.
- 87. B.** (\$7,300) - Base income: \$5,800. Grossed-up child support: $\$1,200 \times 1.25 = \$1,500$. Total: $\$5,800 + \$1,500 = \$7,300$.
- 88. D.** (0.125% - 1/8 of a percent) - For fixed-rate loans, APR increases exceeding 1/8% trigger a new 3-day waiting period. For ARMs, the threshold is 1/4%.
- 89. A.** (76.47%) - CLTV = $(\$280,000 + \$45,000) \div \$425,000 = \$325,000 \div \$425,000 = 76.47\%$.
- 90. C.** (Is disclosed to the buyer but may not prevent closing depending on its nature) - Easements are disclosed to buyers. Most easements (utility, access) don't prevent closing unless they significantly impair the property.
- 91. B.** (The creditor discovers it underestimated its own fees) - Creditor errors don't qualify as changed circumstances allowing revised LEs. The creditor must absorb the difference or cure the tolerance violation.
- 92. D.** (Exclude due to lack of two-year history) - Variable income like overtime requires two years of documented history. One year of overtime cannot be included without historical consistency.
- 93. A.** (Varies by family size and geographic region) - VA residual income requirements differ based on family size and geographic location to account for cost-of-living variations.
- 94. C.** (December 1) - Closing October 20 means the first payment is due December 1. Payments must be at least 30 days from closing, with the first payment on the 1st of the month.
- 95. B.** (Decline to provide target values and report the appraiser's conduct) - Appraiser independence rules prohibit communicating desired values. Appraisers requesting targets violate these rules.

- 96. D.** (Must be included in DTI calculations as it has 10 or more payments remaining) - Installment debts with 10 or more remaining payments must be included in DTI. With 11 payments, this debt must be counted.
- 97. A.** (All applicants) - ECOA requires adverse action notices be sent to all co-applicants, not just the primary applicant.
- 98. C.** (20 business days) - Under RESPA, servicers must return escrow balances within 20 business days of loan payoff.
- 99. B.** (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 pay cannot be tied to loan terms other than principal amount.
- 100. D.** (Explain this constitutes occupancy fraud and refuse to proceed with false information) - Occupancy misrepresentation is federal fraud. MLOs must refuse to participate and explain the serious consequences.
- 101. A.** (Treat this as a red flag and verify employment legitimacy) - Inconsistent employer names on pay stubs suggest possible document falsification requiring investigation.
- 102. C.** (Payment for goods or services actually provided at fair market value) - RESPA permits reasonable payments for actual goods and services. Referral fees and fee splitting without services are prohibited.
- 103. B.** (Report to compliance and decline to proceed with the application) - Suspected fraud requires reporting through proper channels and refusing to proceed.
- 104. D.** (Decline to provide any target value and report the appraiser's inquiry) - Appraiser independence rules prohibit target value communications. Appraisers requesting targets should be reported.
- 105. A.** (Refusing to lend in a neighborhood based on its racial or ethnic composition) - Redlining based on neighborhood demographics violates fair lending laws.
- 106. C.** (Document this information as it creates a debt obligation affecting qualification) - Borrowed down payment creates debt affecting DTI and may violate gift requirements for many programs.
- 107. B.** (Violates advertising regulations as an unsubstantiated and misleading claim) - "Guaranteed" rate claims are inherently misleading and violate Regulation N.
- 108. D.** (Requires additional verification to confirm legitimate employment and income) - Spouse-owned employer situations aren't automatically fraudulent but require extra verification.
- 109. D.** (Must never be disclosed to the subject of the SAR) - SAR information must NEVER be disclosed to the subject of the report. Tipping off SAR subjects is a federal violation.

- 110. C.** (Document and disclose the relationship as it indicates a non-arm's length transaction) - Undisclosed family relationships in transactions are red flags requiring documentation and disclosure.
- 111. B.** (Refuse and explain that backdating any document constitutes fraud) - Backdating is falsification and fraud regardless of the document type or time period involved.
- 112. D.** (Decline or follow company policy, as accepting may violate RESPA and create appearance of impropriety) - Gifts from settlement service providers may create RESPA concerns and appearance issues.
- 113. A.** (Honesty and fair dealing) - The SAFE Act requires MLOs to act with honesty and fair dealing in all transactions.
- 114. C.** (Ensure genuine understanding using qualified interpretation services if necessary) - MLOs must ensure borrowers understand material terms, using interpretation services when needed.
- 115. B.** (Report the discovered fraud through appropriate channels) - Post-closing fraud discovery still requires reporting through proper compliance channels.
- 116. D.** ("Guaranteed approval for all applicants!") - Guaranteed approval claims are misleading and violate Regulation N advertising rules.
- 117. A.** (Require documentation proving the debt was paid before excluding it from DTI) - Debts on credit reports must be documented as paid before exclusion from DTI calculations.
- 118. C.** (May indicate fraud and should be documented and reported) - Inflated prices with large credits back can indicate fraud schemes requiring documentation and reporting.
- 119. B.** (Has an obligation to ensure borrowers genuinely understand material loan terms) - MLOs have ethical obligations beyond obtaining signatures to ensure genuine borrower understanding.
- 120. D.** (Refuse to approve non-compliant loans and document the pressure) - MLOs must maintain integrity and refuse non-compliant loans regardless of management pressure.