

PRACTICE TEST 7

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

1. Under TRID, the Loan Estimate must be provided or placed in the mail within how many business days after receiving an application?

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

2. A borrower's Closing Disclosure shows a lender credit of \$3,500. The Loan Estimate showed a lender credit of \$4,000. What is the result?

- A. This is acceptable because credits can decrease
- B. This is a tolerance violation; the creditor must provide the full \$4,000 credit
- C. The borrower must pay the \$500 difference at closing
- D. The loan cannot close until the discrepancy is resolved

3. Under ECOA, a creditor taking adverse action must notify the applicant within:

- A. 30 days of taking the action
- B. 15 days of receiving the application
- C. 60 days of closing
- D. 45 days of the decision

4. Under RESPA, an escrow account surplus exceeding \$50 must be:

- A. Applied to the next year's escrow
- B. Held in reserve by the servicer
- C. Returned to the borrower within 30 days
- D. Used to reduce the principal balance

5. A first-lien mortgage has an APR of 7.5% when the APOR is 5.25%. This loan is classified as:

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

6. Under TILA, which transaction has a right of rescission?

- A. Purchase of a primary residence

- B. Home equity loan on a primary residence
- C. Purchase of an investment property
- D. Refinance of a vacation home

7. Under the Homeowners Protection Act, automatic PMI termination occurs when LTV reaches:

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

8. A borrower closes on a rate-and-term refinance of their primary residence on Monday, June 2. All disclosures were properly provided at closing. When does the rescission period expire?

- A. Wednesday, June 4
- B. Friday, June 6
- C. Thursday, June 5 at midnight
- D. Tuesday, June 3

9. Under FCRA, when a consumer disputes information on their credit report, the credit bureau must:

- A. Delete the information immediately
- B. Contact the creditor within 5 days

- C. Notify law enforcement
- D. Complete the investigation within 30 days

10. Under RESPA Section 8, which arrangement is PROHIBITED?

- A. Employer paying salary to an employee MLO
- B. Title company paying \$150 per referral to a real estate agent
- C. Payment for services actually rendered at fair market value
- D. Bonus paid to employee for meeting production goals

11. A creditor's Loan Estimate shows zero-tolerance fees totaling \$1,650. At closing, these fees total \$1,725. What must occur?

- A. The creditor must cure the \$75 tolerance violation within 60 days of consummation
- B. The borrower must pay the full \$1,725
- C. The creditor may charge \$1,815 (10% tolerance)
- D. The loan must be restructured

12. Under TRID, what is the purpose of the "Know Before You Owe" rule?

- A. To require homeowner's insurance
- B. To set maximum interest rates
- C. To provide consumers with clearer, more understandable loan disclosures

D. To eliminate closing costs

13. A loan has a principal balance of \$285,000 at 6.5% interest. What is the monthly interest for the first month?

- A. \$18,525
- B. \$1,425.00
- C. \$1,523.75
- D. \$1,543.75

14. Under GLBA, financial institutions must provide privacy notices:

- A. Only when requested by the customer
- B. At the time of establishing a customer relationship and annually thereafter
- C. Only at loan closing
- D. Only when sharing with affiliates

15. Under the BSA/AML, a Suspicious Activity Report must be filed within how many days of detecting suspicious activity?

- A. 30 calendar days
- B. 60 calendar days
- C. 15 business days

D. 45 calendar days

16. Under ECOA Regulation B, which factor IS a prohibited basis for credit discrimination?

A. Employment history

B. Debt-to-income ratio

C. Marital status

D. Credit score

17. Under TRID, which of the following triggers a new 3-business-day waiting period for the Closing Disclosure?

A. Decrease in loan amount

B. Increase in escrow deposits

C. Change in settlement date

D. Addition of a prepayment penalty

18. A borrower pays 2.25 discount points on a \$340,000 loan. What is the cost of the points?

A. \$6,800

B. \$7,650

C. \$3,400

D. \$8,500

19. Under RESPA, a servicer must respond to a notice of error within:

- A. 30 calendar days, extendable to 45 days with notice
- B. 15 business days
- C. 5 business days
- D. 60 calendar days

20. A creditor receives a complete application on Monday at 2 PM. Tuesday is a federal holiday. What is the deadline for providing the Loan Estimate?

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

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

- A. Showing properties within the buyer's budget
- B. Providing school district information
- C. Advertising in multiple languages
- D. Directing buyers to or away from neighborhoods based on race

22. Under TRID, the 10% tolerance category applies to which fees?

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

23. A borrower receives \$1,800 monthly in nontaxable VA disability income. Using a 25% gross-up, what is the qualifying income?

- A. \$2,250
- B. \$1,800
- C. \$2,700
- D. \$1,350

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

- A. At application
- B. Within 30 days after the first payment
- C. At closing or within 45 days of establishing the escrow account
- D. At the annual escrow analysis

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

- A. Interest rates increase after closing
- B. The borrower experiences financial hardship
- C. Property values decline
- D. The creditor failed to provide material disclosures or notice of right to rescind

26. The Dodd-Frank Act's Ability-to-Repay rule requires lenders to:

- A. Guarantee loan repayment
- B. Make a reasonable, good faith determination that the borrower can repay the loan
- C. Require 20% down payment on all loans
- D. Limit loans to borrowers with 750+ credit scores

27. Under ECOA, when an applicant withdraws their application, the creditor must:

- A. Retain the application for 25 months
- B. Immediately destroy all records
- C. Send an adverse action notice
- D. Report the withdrawal to credit bureaus

28. Under HMDA, which data point is NOT required to be reported?

- A. Loan amount

- B. Property location
- C. Borrower's Social Security number
- D. Ethnicity of applicant

29. Under the E-Sign Act, electronic signatures are:

- A. Only valid for refinance transactions
- B. Never valid for mortgage transactions
- C. Only valid if notarized electronically
- D. Legally equivalent to handwritten signatures when proper consent is obtained

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

- A. 12 hours annually with no specific requirements
- B. 8 hours annually including 3 hours federal law, 2 hours ethics, and 2 hours non-traditional mortgage products
- C. 20 hours annually
- D. 6 hours annually

31. An MLO's license is set to expire on December 31. The MLO completes CE on January 10 of the following year. What is the status of their license?

- A. Expired, requiring reinstatement according to state procedures

- B. Active with a grace period
- C. Automatically renewed upon CE completion
- D. Permanently revoked

32. Under the SAFE Act, which individual must be state-licensed (not just registered)?

- A. MLO employed by a national bank
- B. MLO employed by a federal credit union
- C. MLO employed by a mortgage broker company
- D. Loan processor working exclusively for one bank

33. Which of the following would disqualify an individual from obtaining an MLO license under the SAFE Act?

- A. Having student loan debt
- B. Living in a different state than the licensing state
- C. Previous employment in retail
- D. Conviction of a felony involving money laundering

34. An MLO sponsored by Company A wants to work for Company B. What must occur?

- A. The MLO must retake the national test
- B. The sponsorship must be transferred through NMLS

- C. The MLO license is automatically transferred
- D. The MLO must complete additional pre-licensing education

35. The NMLS unique identifier is used to:

- A. Track MLOs throughout their careers and provide public access to licensing and disciplinary information
- B. Calculate loan pricing
- C. Determine credit scores
- D. Set commission rates

36. Under state law, grounds for denial of an MLO license include:

- A. Having multiple state licenses
- B. Being employed part-time
- C. Making a material misstatement on the license application
- D. Living outside the licensing state

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

- A. Examine licensee books and records
- B. Suspend or revoke licenses
- C. Order restitution for harmed consumers

D. Approve or deny individual loan applications

38. Under the SAFE Act, the waiting period after the third failed test attempt is:

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

39. Which activity may be performed by an unlicensed loan processor working under the supervision of a licensed MLO?

- A. Collecting documents and performing clerical tasks
- B. Negotiating loan terms
- C. Offering rate quotes to borrowers
- D. Discussing loan product options with applicants

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

- A. 30 days
- B. 90 days
- C. 120 days

D. 60 days

41. The SAFE Act pre-licensing education requirement is:

A. 8 hours total

B. 25 hours total

C. 15 hours total

D. 20 hours including 3 hours federal law, 3 hours ethics, and 2 hours non-traditional products

42. Under the SAFE Act, an MLO's unique identifier must appear on:

A. Only the final closing documents

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

C. Only government loan applications

D. Only internal company documents

43. A borrower purchases a home for \$525,000 with 25% down. What is the loan amount?

A. \$393,750

B. \$131,250

C. \$525,000

D. \$420,000

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

- A. 25%
- B. 80%
- C. 75%
- D. 85%

45. A property is valued at \$520,000. The first mortgage is \$364,000 and there is a HELOC with a \$75,000 limit (current balance \$50,000). What is the CLTV?

- A. 70%
- B. 79.62%
- C. 84.52%
- D. 84.42%

46. A borrower has gross monthly income of \$11,200 and total monthly debts of \$4,480. What is the back-end DTI ratio?

- A. 35%
- B. 40%
- C. 45%
- D. 50%

47. A 3/1 ARM has an initial rate of 5.5%, margin of 2.75%, current index of 4.5%, and cap structure of 2/2/5. What is the maximum rate at the first adjustment?

- A. 7.5%
- B. 7.25%
- C. 10.5%
- D. 8.25%

48. The FHA annual mortgage insurance premium (MIP) is:

- A. A one-time upfront payment only
- B. Always waived for first-time buyers
- C. Typically 0.55% annually for most loans with LTV over 95%
- D. The same as private mortgage insurance

49. A USDA Rural Development loan is designed for:

- A. Urban commercial properties
- B. High-income borrowers only
- C. Jumbo loans only
- D. Low-to-moderate income borrowers in eligible rural areas

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

- A. 30-year term
- B. Negative amortization
- C. Escrow account
- D. Fixed interest rate

51. The secondary mortgage market:

- A. Provides liquidity to lenders by purchasing existing loans
- B. Originates loans directly to borrowers
- C. Underwrites loan applications
- D. Insures government loans

52. A loan of \$275,000 at 6.25% annual interest has a first-month interest payment of:

- A. \$17,187.50
- B. \$1,375.00
- C. \$1,432.29
- D. \$1,145.83

53. FHA loans are:

- A. Guaranteed by the VA

- B. Originated by the FHA
- C. Purchased by Fannie Mae only
- D. Insured by the Federal Housing Administration

54. The conforming loan limit for 2024 in most areas is:

- A. \$417,000
- B. \$766,550
- C. \$647,200
- D. \$1,000,000

55. A balloon mortgage features:

- A. A large final payment at the end of the loan term
- B. Gradually increasing payments
- C. Negative amortization throughout
- D. Interest-only payments for the full term

56. An adjustable-rate mortgage's fully indexed rate equals:

- A. The margin only
- B. The cap structure

- C. Index plus margin
- D. The initial rate

57. The cost approach to appraisal is most appropriate for:

- A. Income-producing rental properties
- B. Residential properties with many comparables
- C. Commercial properties
- D. New or unique properties with limited comparables

58. A borrower's three credit scores are 698, 722, and 685. Which score is used for qualification?

- A. 722
- B. 698
- C. 685
- D. 702 (the average)

59. 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

60. A reverse mortgage (HECM) allows borrowers to:

- A. Borrow against their home equity without monthly payments, with repayment upon sale, death, or move
- B. Purchase a new home with no down payment
- C. Refinance without closing costs
- D. Convert an ARM to a fixed-rate loan

61. A borrower earns \$84,000 annually plus \$12,000 in documented, stable commission income. What is the monthly qualifying income?

- A. \$7,000
- B. \$8,500
- C. \$7,500
- D. \$8,000

62. Table funding refers to:

- A. The borrower bringing cash to closing
- B. A loan funded at closing by a third party while the originator closes in their own name
- C. Multiple investors funding a single loan

D. Delayed funding after a review period

63. Private mortgage insurance protects:

A. The lender against borrower default

B. The borrower against job loss

C. The property against damage

D. The title company against errors

64. An escrow account is used to:

A. Hold earnest money deposits

B. Pay closing costs

C. Collect funds for property taxes, insurance, and other recurring expenses

D. Store the borrower's savings

65. A loan with payments that don't cover all interest due, causing the principal balance to increase, features:

A. Positive amortization

B. Interest-only payments

C. Balloon payments

D. Negative amortization

66. The primary appraisal approach for single-family residences is:

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

67. Under TRID, an application is triggered when the lender receives:

- A. Six pieces of information: name, income, SSN, property address, estimated value, and loan amount
- B. A signed intent to proceed
- C. The borrower's credit report
- D. A completed 1003 form

68. A borrower's bank statements show a \$25,000 deposit when their monthly income is \$5,500. This deposit:

- A. Is automatically acceptable
- B. Requires only verbal explanation
- C. Must be sourced and documented
- D. Can be ignored if under \$30,000

69. For HPMLs, a written appraisal must be obtained from a:

- A. Real estate agent
- B. Tax assessor
- C. The borrower's family member with appraisal experience
- D. Certified or licensed appraiser

70. Under TRID, which fees have zero tolerance?

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

71. A valid changed circumstance under TRID includes:

- A. Information received that differs from what the borrower originally provided
- B. The creditor wanting to increase profit margin
- C. The loan officer forgetting to include a fee
- D. The creditor discovering it underestimated its fees

72. Gift funds for a down payment require:

- A. Only a deposit slip

- B. Verbal confirmation from the donor
- C. A gift letter stating no repayment is expected, plus evidence of transfer and donor's ability to give
- D. The donor's complete tax returns

73. Self-employed borrowers typically must provide:

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

74. A borrower closes on October 5. How many days of prepaid interest will be collected?

- A. 5 days
- B. 27 days (October 5-31)
- C. 30 days
- D. 26 days

75. Title insurance protects:

- A. Against defects in title that existed before the policy was issued but were undiscovered
- B. The borrower against default

- C. Against future changes in property value
- D. Against natural disasters

76. An appraisal must be delivered to the borrower at least:

- A. 7 business days before consummation
- B. 5 business days before consummation
- C. 3 business days before consummation
- D. At closing only

77. A borrower's employment verification shows 3 months at current job after 4 months of unemployment. The underwriter should:

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

78. The standard FHA back-end DTI maximum is generally:

- A. 28%
- B. 43%
- C. 50%

D. 36%

79. When an appraisal comes in lower than the purchase price:

- A. The LTV is calculated using the lower of purchase price or appraised value
- B. The LTV is calculated using the purchase price
- C. The LTV is calculated using the average
- D. The loan is automatically denied

80. A flood zone determination is required to:

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

81. Under the ATR rule, which of the following must be verified?

- A. Borrower's political affiliation
- B. Borrower's religious beliefs
- C. Borrower's favorite color
- D. Borrower's current income and employment

82. A borrower's monthly income is \$8,500 and proposed PITIA is \$2,380. What is the front-end ratio?

- A. 30%
- B. 28%
- C. 32%
- D. 25%

83. Under RESPA, notice of servicing transfer must be provided by the new servicer within:

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

84. A borrower's credit report shows a 60-day late from 18 months ago. This typically:

- A. Permanently disqualifies them
- B. Has no impact on the application
- C. May require explanation but doesn't automatically disqualify
- D. Requires a 3-year waiting period

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

- A. Single-family homes
- B. Vacant land
- C. New construction
- D. Income-producing investment properties

86. A borrower earns \$6,200 monthly and receives \$900 monthly in nontaxable child support. Using a 25% gross-up, what is total qualifying income?

- A. \$7,100
- B. \$7,325
- C. \$6,875
- D. \$6,200

87. Under TRID, if the APR on an ARM increases by more than what amount after the Closing Disclosure, a new 3-day waiting period is required?

- A. 0.25% (1/4 of a percent)
- B. 0.50%
- C. 0.125%
- D. Any increase

88. A borrower has a first mortgage of \$320,000 and wants a \$55,000 HELOC. Home value is \$475,000. What is the proposed CLTV?

- A. 67.37%
- B. 72.95%
- C. 78.95%
- D. 85%

89. A title search reveals an old judgment lien that was satisfied but not released. Before closing:

- A. The borrower must pay the judgment again
- B. Nothing needs to be done
- C. The title company can ignore it
- D. A release or satisfaction must be obtained and recorded

90. Under TRID, a revised Loan Estimate must be provided within how many business days of a valid changed circumstance?

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

91. A borrower's application shows annual income of \$78,000. They received a \$5,000 bonus last year only. How should the bonus be treated?

- A. Excluded due to lack of two-year history
- B. Fully included
- C. Averaged over two years
- D. Half included

92. For VA loans, the Certificate of Eligibility (COE) verifies:

- A. The property's VA approval status
- B. The borrower's credit score
- C. The veteran's entitlement to VA loan benefits
- D. The appraiser's qualifications

93. A borrower closes on November 15. When is the first mortgage payment typically due?

- A. November 30
- B. December 15
- C. December 1
- D. January 1

94. An MLO receives a call from an appraiser asking what value is needed. The MLO should:

- A. Provide the purchase price

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

95. A borrower has a student loan payment of \$350 showing on their credit report with payments deferred for 12 more months. Under conventional guidelines:

- A. A calculated payment (typically 0.5% or 1% of balance) may be used for DTI
- B. The debt can be ignored entirely
- C. The full balance must be paid before closing
- D. Only half the payment is counted

96. When joint applicants are denied, ECOA requires adverse action notice be sent to:

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

97. 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 calendar days
- D. 20 business days

98. A borrower's debt-to-income ratio is calculated using:

- A. Net monthly income
- B. Gross monthly income
- C. Annual net income
- D. Disposable income

99. An MLO's employer pays a higher commission for loans with higher interest rates. This arrangement:

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

100. A borrower wants to list their rental property as owner-occupied to get better loan terms. The MLO should:

- A. Follow the borrower's instructions
- B. Mark it as requested but note concerns in the file
- C. Explain this constitutes occupancy fraud and refuse to proceed with false information

D. Let the underwriter make the determination

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

A. Normal for large employers

B. Acceptable with verbal explanation

C. Irrelevant to underwriting

D. A red flag requiring verification of employment legitimacy

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

A. Referral fees from title companies to MLOs

B. Reasonable payment for goods or services actually furnished

C. Kickbacks disclosed to borrowers

D. Fee splitting without services rendered

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

A. Report to compliance and decline to proceed

B. Proceed if other documents are strong

C. Help the borrower improve the documents

D. Only report for loans over \$500,000

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

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

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

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

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

- A. Proceed since funds are in the account
- B. Document this as it creates a debt obligation affecting DTI and may violate program requirements
- C. Suggest the borrower not mention repayment
- D. Only be concerned if in writing

107. An MLO's advertisement claims "100% Guaranteed Approval!" This advertisement:

- A. Violates advertising regulations as a misleading and unsubstantiated claim
- B. Is acceptable with disclaimers
- C. Is permitted if approval rates are high
- D. Is only prohibited for government loans

108. A borrower's employer is their own LLC. This situation:

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

109. Information that a SAR has been filed:

- A. Must be disclosed to the borrower
- B. Can be shared with the real estate agent
- C. Should appear on the Closing Disclosure
- D. Must never be disclosed to the subject of the SAR

110. An MLO learns the buyer and seller in a transaction are undisclosed relatives. The MLO should:

- A. Ignore it as personal matters

- B. Document and disclose the relationship as it indicates a non-arm's length transaction
- C. Proceed only if the price seems fair
- D. Congratulate them on keeping it in the family

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

- A. Refuse and explain that backdating constitutes fraud regardless of the reason
- B. Comply if it's only a few days
- C. Backdate but note the true date elsewhere
- D. Comply if the borrower signs a waiver

112. An MLO receives an expensive watch from a settlement service provider. The MLO should:

- A. Accept it since there's no explicit agreement
- B. Accept if under \$500
- C. Decline or return it, as accepting may violate RESPA and create appearance of impropriety
- D. Accept from companies not regularly used

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

- A. Maximum profit focus
- B. Speed over accuracy

- C. Deference to employer regardless of legality
- D. Honesty, fairness, and good faith

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

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

115. After closing, an MLO discovers the borrower provided falsified employment documents. The MLO had no knowledge before closing. The MLO should:

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

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

- A. "Competitive rates available"
- B. "Call for today's rates"

- C. "Lowest rates guaranteed—no exceptions!"
- D. "FHA and VA loans offered"

117. A borrower's credit report shows a medical collection. The MLO should:

- A. Automatically disqualify the borrower
- B. Require full payment before closing
- C. Apply a 3-year waiting period
- D. Check program guidelines, as many allow medical collections to be excluded

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

- A. Is a common practice benefiting buyers
- B. May indicate fraud and should be documented and reported
- C. Is only concerning on refinances
- D. Is acceptable if the appraisal supports the value

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

- A. Has an ethical obligation to ensure genuine understanding of material terms regardless of signatures
- B. Is protected because the borrower signed
- C. Is only responsible for written disclosures

D. Should blame the closing agent

120. An MLO is pressured by management to approve a loan that clearly doesn't meet guidelines. The MLO should:

A. Approve to meet sales goals

B. Approve but document their objection

C. Refuse to approve non-compliant loans and document the management pressure

D. Quit without documentation

Answer Key and Explanations

- 1. D.** (3 business days) - Under TRID, the Loan Estimate must be delivered or placed in the mail within 3 business days of receiving the six pieces of information that constitute an application.
- 2. B.** (This is a tolerance violation; the creditor must provide the full \$4,000 credit) - Lender credits disclosed on the Loan Estimate are subject to zero tolerance. If the actual credit is less than disclosed, the creditor must provide the originally disclosed amount.
- 3. A.** (30 days of taking the action) - Under ECOA Regulation B, creditors must notify applicants of adverse action within 30 days of taking the action on a completed application.
- 4. C.** (Returned to the borrower within 30 days) - Under RESPA, if an escrow account surplus exceeds \$50, the servicer must return the excess to the borrower within 30 days of the escrow analysis.
- 5. D.** (Higher-priced mortgage loan - HPML) - The APR exceeds APOR by 2.25% (7.5% - 5.25%). This exceeds the 1.5% HPML threshold for first-lien loans but is below the 6.5% HOEPA high-cost threshold.
- 6. B.** (Home equity loan on a primary residence) - The right of rescission applies to refinances and home equity transactions on a borrower's primary residence. Purchase transactions and loans on non-primary residences don't have rescission rights.
- 7. A.** (78% based on original value and original amortization schedule) - The Homeowners Protection Act requires automatic PMI termination at 78% LTV based on the original property value and original amortization schedule.
- 8. C.** (Thursday, June 5 at midnight) - Monday (closing) is day 0. Tuesday is day 1, Wednesday is day 2, Thursday is day 3. The rescission period expires at midnight on the third business day.
- 9. D.** (Complete the investigation within 30 days) - Under FCRA, credit bureaus must complete investigations of consumer disputes within 30 days. This may be extended to 45 days if additional information is provided.
- 10. B.** (Title company paying \$150 per referral to a real estate agent) - RESPA Section 8 prohibits referral fees between settlement service providers. Per-referral payments from title companies to real estate agents are illegal kickbacks.
- 11. A.** (The creditor must cure the \$75 tolerance violation within 60 days of consummation) - Zero-tolerance fees cannot increase from the Loan Estimate to closing. The \$75 overage must be refunded within 60 days.
- 12. C.** (To provide consumers with clearer, more understandable loan disclosures) - TRID's "Know Before You Owe" rule integrated TILA and RESPA disclosures to create clearer forms helping consumers understand loan terms and costs.

13. D. ($\$1,543.75$) - Monthly interest = Principal \times (Annual Rate \div 12) = $\$285,000 \times (0.065 \div 12) = \$285,000 \times 0.005417 = \$1,543.75$.

14. B. (At the time of establishing a customer relationship and annually thereafter) - GLBA requires privacy notices when the customer relationship is established and annually for continuing relationships.

15. A. (30 calendar days) - SARs must be filed within 30 calendar days of detecting suspicious activity. If no suspect is identified, this may be extended to 60 days.

16. C. (Marital status) - ECOA prohibits discrimination based on marital status, along with race, color, religion, national origin, sex, age, receipt of public assistance, and good faith exercise of rights.

17. D. (Addition of a prepayment penalty) - Three changes trigger a new 3-day waiting period: APR increase above tolerance, loan product change, or prepayment penalty addition. Escrow changes don't require new waiting periods.

18. B. ($\$7,650$) - Discount points = Loan amount \times Point percentage = $\$340,000 \times 2.25\% = \$340,000 \times 0.0225 = \$7,650$.

19. A. (30 calendar days, extendable to 45 days with notice) - Servicers must respond to notices of error within 30 days, extendable to 45 days with written notice to the borrower.

20. C. (Friday) - Monday is day 0. Tuesday is a federal holiday and doesn't count. Wednesday is day 1, Thursday is day 2, Friday is day 3. The LE must be delivered by Friday.

21. D. (Directing buyers to or away from neighborhoods based on race) - Steering based on race violates the Fair Housing Act. Directing buyers toward or away from areas based on racial composition is illegal.

22. B. (Recording fees and services the borrower could shop for but used the lender's list) - The 10% cumulative tolerance applies to recording fees and fees for services where the borrower could shop but chose from the lender's written list.

23. A. ($\$2,250$) - Gross-up calculation: $\$1,800 \times 1.25 = \$2,250$. The 25% gross-up converts nontaxable income to its taxable equivalent.

24. C. (At closing or within 45 days of establishing the escrow account) - Under RESPA, the initial escrow statement must be provided at closing or within 45 days of establishing the escrow account.

25. D. (The creditor failed to provide material disclosures or notice of right to rescind) - The extended 3-year rescission period applies when creditors fail to provide required material disclosures or the rescission notice.

26. B. (Make a reasonable, good faith determination that the borrower can repay the loan) - The ATR rule requires lenders to verify income, assets, debts, and other factors to determine borrowers can reasonably repay their loans.

- 27. A.** (Retain the application for 25 months) - ECOA requires creditors to retain records of all applications, including withdrawals, for 25 months to allow regulatory review.
- 28. C.** (Borrower's Social Security number) - HMDA requires reporting of loan amount, property location, and applicant demographics including ethnicity. SSN is not a HMDA-reportable field.
- 29. D.** (Legally equivalent to handwritten signatures when proper consent is obtained) - The E-Sign Act gives electronic signatures the same legal standing as handwritten signatures when consumers provide proper consent.
- 30. B.** (8 hours annually including 3 hours federal law, 2 hours ethics, and 2 hours non-traditional mortgage products) - SAFE Act CE requirements are 8 hours annually with specific content requirements plus 1 hour of elective content.
- 31. A.** (Expired, requiring reinstatement according to state procedures) - Failure to complete CE by December 31 results in license expiration. Completion after the deadline requires reinstatement through state procedures.
- 32. C.** (MLO employed by a mortgage broker company) - MLOs at non-depository institutions (mortgage brokers, mortgage companies) must be state-licensed. Those at federally chartered institutions are registered only.
- 33. D.** (Conviction of a felony involving money laundering) - The SAFE Act permanently bars individuals convicted of felonies involving fraud, dishonesty, breach of trust, or money laundering from MLO licensure.
- 34. B.** (The sponsorship must be transferred through NMLS) - MLO licenses are tied to sponsoring companies. When changing employers, the MLO must transfer sponsorship through NMLS to the new company.
- 35. A.** (Track MLOs throughout their careers and provide public access to licensing and disciplinary information) - The NMLS unique identifier allows consumers and regulators to access MLO licensing status, employment history, and disciplinary actions.
- 36. C.** (Making a material misstatement on the license application) - Material misstatements on license applications are grounds for denial. False or misleading information demonstrates lack of integrity required for licensure.
- 37. D.** (Approve or deny individual loan applications) - State regulators examine companies, suspend licenses, and order restitution but don't approve or deny individual loan applications.
- 38. B.** (180 days) - After failing the SAFE MLO test three times, the waiting period increases to 180 days (6 months) before the fourth attempt.
- 39. A.** (Collecting documents and performing clerical tasks) - Unlicensed processors may perform clerical duties under supervision. Negotiating terms, quoting rates, and discussing products require licensure.

- 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 other conditions are met.
- 41. D.** (20 hours including 3 hours federal law, 3 hours ethics, and 2 hours non-traditional products) - SAFE Act pre-licensing requires 20 hours with specific content allocations for federal law, ethics, and non-traditional products.
- 42. B.** (All residential mortgage loan documents, advertisements, business cards, and websites) - The NMLS unique identifier must appear on all loan documents, advertisements, business cards, websites, and other materials.
- 43. A.** (\$393,750) - Loan amount = Purchase price - Down payment = $\$525,000 - (25\% \times \$525,000) = \$525,000 - \$131,250 = \$393,750$.
- 44. C.** (75%) - LTV = Loan amount \div Property value = $\$393,750 \div \$525,000 = 75\%$. A 25% down payment results in 75% LTV.
- 45. D.** (84.42%) - CLTV uses HELOC credit limit. CLTV = $(\$364,000 + \$75,000) \div \$520,000 = \$439,000 \div \$520,000 = 84.42\%$.
- 46. B.** (40%) - Back-end DTI = Total monthly debts \div Gross monthly income = $\$4,480 \div \$11,200 = 40\%$.
- 47. A.** (7.5%) - Initial rate is 5.5%. First adjustment cap is 2%. Maximum at first adjustment = $5.5\% + 2\% = 7.5\%$.
- 48. C.** (Typically 0.55% annually for most loans with LTV over 95%) - FHA annual MIP rates vary by loan term and LTV. For most loans with LTV over 95%, the rate is approximately 0.55% annually.
- 49. D.** (Low-to-moderate income borrowers in eligible rural areas) - USDA Rural Development loans are designed for low-to-moderate income borrowers purchasing homes in eligible rural areas.
- 50. B.** (Negative amortization) - QM loans prohibit negative amortization, interest-only payments, balloon payments, and terms exceeding 30 years.
- 51. A.** (Provides liquidity to lenders by purchasing existing loans) - The secondary market purchases loans from originators, providing capital for new lending.
- 52. C.** (\$1,432.29) - Monthly interest = $\$275,000 \times (6.25\% \div 12) = \$275,000 \times 0.005208 = \$1,432.29$.
- 53. D.** (Insured by the Federal Housing Administration) - FHA loans are insured (not guaranteed) by the Federal Housing Administration, protecting lenders against borrower default.
- 54. B.** (\$766,550) - The 2024 conforming loan limit for most areas is \$766,550. Higher limits apply in high-cost areas.

- 55. A.** (A large final payment at the end of the loan term) - Balloon mortgages feature regular payments during the term followed by a large final "balloon" payment.
- 56. C.** (Index plus margin) - The fully indexed rate equals the current index value plus the margin. This determines the interest rate at each adjustment.
- 57. D.** (New or unique properties with limited comparables) - The cost approach estimates value based on land value plus construction cost minus depreciation, useful for unique properties lacking comparables.
- 58. B.** (698) - When three credit scores are available, lenders use the middle score. Arranged: 685, 698, 722. The middle score is 698.
- 59. A.** (Housing expenses only - PITIA) - The front-end ratio includes only housing costs: principal, interest, taxes, insurance, and association dues.
- 60. C.** (Borrow against their home equity without monthly payments, with repayment upon sale, death, or move) - HECM reverse mortgages allow seniors to access equity without monthly payments. The loan is repaid when the borrower sells, moves, or passes away.
- 61. D.** (\$8,000) - Base salary: $\$84,000 \div 12 = \$7,000$. Commission: $\$12,000 \div 12 = \$1,000$. Total: $\$7,000 + \$1,000 = \$8,000$.
- 62. B.** (A loan funded at closing by a third party while the originator closes in their own name) - Table funding occurs when a warehouse lender provides funds at closing while the broker closes in their own name.
- 63. A.** (The lender against borrower default) - PMI protects lenders against losses when borrowers default on loans with LTV above 80%.
- 64. C.** (Collect funds for property taxes, insurance, and other recurring expenses) - Escrow accounts collect monthly amounts from borrowers to pay taxes, insurance, and similar expenses when due.
- 65. D.** (Negative amortization) - Negative amortization occurs when payments don't cover interest due, causing unpaid interest to be added to principal.
- 66. B.** (Sales comparison approach) - The sales comparison approach compares the subject to recently sold comparable properties, making it most appropriate for residential properties.
- 67. A.** (Six pieces of information: name, income, SSN, property address, estimated value, and loan amount) - TRID defines an application as receipt of these six specific pieces of information.
- 68. C.** (Must be sourced and documented) - Large deposits exceeding 50% of monthly income must be sourced. $\$25,000$ is 455% of $\$5,500$ monthly income.
- 69. D.** (Certified or licensed appraiser) - HPMLs require written appraisals from state-certified or licensed appraisers meeting independence requirements.

70. B. (Fees paid to the creditor and fees for services the creditor selected) - Zero-tolerance fees cannot increase from LE to closing. These include lender fees and fees for creditor-selected services.

71. A. (Information received that differs from what the borrower originally provided) - Valid changed circumstances include new information differing from what was provided, extraordinary events, or borrower-requested changes.

72. C. (A gift letter stating no repayment is expected, plus evidence of transfer and donor's ability to give) - Complete gift documentation includes the gift letter, transfer evidence, and verification the donor had funds to give.

73. D. (Two years of personal and business tax returns) - Self-employed borrowers typically must provide two years of both personal and business tax returns.

74. B. (27 days - October 5-31) - Prepaid interest covers from closing through month-end. October 5 through October 31 inclusive = 27 days.

75. A. (Against 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.

76. C. (3 business days before consummation) - Appraisals must be delivered at least 3 business days before consummation. Borrowers may waive this only after receiving the appraisal.

77. D. (Request an explanation of the employment gap) - Employment gaps require explanation before making underwriting decisions. The gap should be documented and evaluated.

78. B. (43%) - FHA's standard maximum back-end DTI is 43%, with front-end at 31%. Higher ratios may be approved with compensating factors.

79. A. (The LTV is calculated using the lower of purchase price or appraised value) - LTV calculations use the lesser of purchase price or appraised value to prevent inflated financing.

80. C. (Determine if flood insurance is required based on FEMA maps) - Flood determinations identify whether properties are in Special Flood Hazard Areas requiring flood insurance.

81. D. (Borrower's current income and employment) - ATR requires verification of income, employment, assets, debts, and credit history using reliable documentation.

82. B. (28%) - Front-end ratio = PITIA ÷ Gross income = $\$2,380 \div \$8,500 = 28\%$.

83. A. (15 days after the transfer date) - Under RESPA, the new servicer must send notice within 15 days after the effective transfer date.

84. C. (May require explanation but doesn't automatically disqualify) - A 60-day late from 18 months ago is a negative factor requiring explanation but doesn't automatically disqualify.

- 85. D.** (Income-producing investment properties) - The income approach calculates value based on potential income, appropriate for rental and commercial properties.
- 86. B.** (\$7,325) - Base income: \$6,200. Grossed-up child support: $\$900 \times 1.25 = \$1,125$. Total: $\$6,200 + \$1,125 = \$7,325$.
- 87. A.** (0.25% - 1/4 of a percent) - For ARMs, APR increases exceeding 1/4% trigger a new 3-day waiting period. For fixed-rate loans, the threshold is 1/8%.
- 88. C.** (78.95%) - $CLTV = (\$320,000 + \$55,000) \div \$475,000 = \$375,000 \div \$475,000 = 78.95\%$.
- 89. D.** (A release or satisfaction must be obtained and recorded) - Even satisfied judgments must have recorded releases to clear title before closing.
- 90. B.** (3 business days) - When a valid changed circumstance occurs, the revised Loan Estimate must be provided within 3 business days of learning of the change.
- 91. A.** (Excluded due to lack of two-year history) - Variable income like bonuses requires two years of documented history. One year of bonus income cannot be included.
- 92. C.** (The veteran's entitlement to VA loan benefits) - The COE confirms the veteran's eligibility for VA loan benefits and available entitlement amount.
- 93. D.** (January 1) - Closing November 15 means the first payment is due January 1. The first payment must be at least 30 days from closing.
- 94. B.** (Decline to provide target values and report the appraiser's inquiry) - Appraiser independence rules prohibit target value communications. Appraisers requesting targets should be reported.
- 95. A.** (A calculated payment - typically 0.5% or 1% of balance - may be used for DTI) - When student loans are deferred, conventional guidelines allow using a calculated percentage of the balance for DTI.
- 96. C.** (All applicants) - ECOA requires adverse action notices be sent to all co-applicants, not just one.
- 97. D.** (20 business days) - Under RESPA, servicers must return escrow balances within 20 business days of loan payoff.
- 98. B.** (Gross monthly income) - DTI ratios use gross monthly income (before taxes and deductions) in the denominator.
- 99. A.** (Violates the Loan Originator Rule prohibition on compensation based on loan terms) - Compensation based on interest rate violates Regulation Z. MLO pay cannot be tied to loan terms other than principal.
- 100. C.** (Explain this constitutes occupancy fraud and refuse to proceed with false information) - Occupancy misrepresentation is federal fraud. MLOs must refuse to participate in false representations.

- 101. D.** (A red flag requiring verification of employment legitimacy) - Inconsistent employer information suggests possible document falsification requiring investigation.
- 102. B.** (Reasonable payment for goods or services actually furnished) - RESPA permits reasonable payments for actual goods and services. Referral fees and kickbacks are prohibited.
- 103. A.** (Report to compliance and decline to proceed) - Suspected fraud requires reporting through proper channels and refusing to proceed.
- 104. C.** (Decline to provide any target value and report the appraiser's inquiry) - Appraiser independence rules prohibit target value communications.
- 105. D.** (Refusing to lend in a neighborhood based on its racial composition - redlining) - Redlining based on neighborhood demographics violates fair lending laws.
- 106. B.** (Document this as it creates a debt obligation affecting DTI and may violate program requirements) - Borrowed down payment creates debt affecting qualification and may violate gift requirements.
- 107. A.** (Violates advertising regulations as a misleading and unsubstantiated claim) - "100% Guaranteed Approval" is inherently misleading and violates Regulation N.
- 108. C.** (Requires additional scrutiny to verify legitimate self-employment income) - Self-employment through an LLC requires verification of legitimate business income.
- 109. D.** (Must never be disclosed to the subject of the SAR) - SAR information is confidential and must never be disclosed to the subject. Tipping off is a federal violation.
- 110. B.** (Document and disclose the relationship as it indicates a non-arm's length transaction) - Undisclosed family relationships between buyer and seller are red flags requiring documentation.
- 111. A.** (Refuse and explain that backdating constitutes fraud regardless of the reason) - Backdating is document falsification and fraud regardless of purpose or time period.
- 112. C.** (Decline or return it, as accepting may violate RESPA and create appearance of impropriety) - Valuable gifts from settlement service providers raise RESPA concerns and appearance issues.
- 113. D.** (Honesty, fairness, and good faith) - The SAFE Act requires MLOs to conduct business with honesty, fairness, and good faith in all transactions.
- 114. B.** (Ensure genuine understanding using qualified interpretation services if necessary) - MLOs must ensure borrowers understand material terms, using interpretation services when needed.
- 115. A.** (Report the discovered fraud through appropriate channels) - Post-closing fraud discovery still requires reporting through proper compliance channels.

116. C. ("Lowest rates guaranteed—no exceptions!") - Guaranteed rate claims are misleading and violate Regulation N advertising rules.

117. D. (Check program guidelines, as many allow medical collections to be excluded) - Many conventional guidelines allow medical collections to be excluded from underwriting consideration.

118. B. (May indicate fraud and should be documented and reported) - Inflated prices with large credits can indicate fraud schemes requiring documentation and reporting.

119. A. (Has an ethical obligation to ensure genuine understanding of material terms regardless of signatures) - MLOs must ensure borrowers understand material terms beyond just obtaining signatures.

120. C. (Refuse to approve non-compliant loans and document the management pressure) - MLOs must maintain integrity, refuse non-compliant loans, and document inappropriate pressure.