Exam Prep Quiz

Mortgage Loan Originator Activities

1. Your borrower has agreed to pay an origination fee of $2150 and one discount point to buy down the interest rate on a $215,000 refinance. How many points are they paying on this loan?
   a. one point
   b. two points
   c. no points
   d. depends whether the discount is paid outside of closing

2. All of the following would be found on a credit report except?
   a. collections, judgments and bankruptcies
   b. pay history on a conventional mortgage
   c. on time payments made to a creditor not reporting data to a repository
   d. relative balances against a credit card

3. Which of the following statements best describes the total LTV ratio?
   a. It is the value of the property minus all the debt secured by that property.
   b. It is the total ratio between the borrower's housing expense and the value of the property.
   c. It is the ratio of the borrower's principal balance and the housing expense.
   d. It is the ratio of the principal loan balance to the appraised value of the home.

4. How is the upfront mortgage insurance premium determined on FHA loans?
   a. It's based upon the total LTV.
   b. It's based upon the gross household income.
   c. It's based upon the sales price or appraised value.
   d. It's based upon the loan amount.

5. The Smith's original 15-year FHA loan amount was $149,000 and the value at the time of purchase was $169,000. Which statement best describes the Smith's situation 5 years later regarding eliminating the monthly MIP now that the home is valued at $180,000 and the payoff balance is $142,200?
   a. They can eliminate the MIP; the LTV is less than 80%.
   b. They can eliminate the MIP; it has been 5 years.
   c. They cannot eliminate the MIP; it has been 5 years but has not reached 78% LTV.
   d. They never had to pay monthly MIP because the original term was 15 years at less than 90% LTV.

6. The Perry's originally took out a 30 year FHA loan of $153,900 on a purchase price of $162,000. Which statement best describes the Perry's situation 5 ½ years later regarding the elimination of the monthly MIP now that the home is worth $174,000 and the principal balance of the loan is $138,330?
   a. They can eliminate the monthly MIP because it has been more than 5 years and the LTV is less than 80%.
   b. They can eliminate the monthly MIP because it has been more than 5 years; the LTV does not matter.
   c. The monthly MIP was canceled at 5 years because the Perry's made a full 5% down payment.
   d. The Perry's cannot drop the monthly MIP even though they have been in the loan for 5 years; the LTV is still over 78%.

7. A family is closing on a $264,000, 30 year fixed rate loan. They are making a 20% down payment and the broker fee will cost 2.5 points. What is the dollar cost of the broker's fee?
   a. $5,280   b. $5,820   c. $6,600   d. $660

8. Joe and Maria Marshall came by your office to apply for a first time homebuyer's loan. Maria only speaks broken English and Joe made the decision that they did not want to provide the government monitoring information on the 1003. You checked the opt out box and left the other boxes blank. You submitted the application to processing and indicated the application was taken face-to-face. Which statement is most true?
   a. You have completed your obligation as long as you told the Marshall's that not providing the information would not affect loan approval.
   b. You are out of compliance because you left the boxes on race, sex and ethnicity blank.
   c. The application was face-to-face and because of visual evidence you are supposed to leave the boxes on race, sex and ethnicity blank as long as you give the Marshall's the choice whether they want to provide this information.
   d. None of the above because the Marshall's must provide this information in a face-to-face application.

9. Conventional Guidelines require appraisers to use which of the following methods for determining the value of a residential property?
   a. assemblage
   b. income approach
   c. sales comparison approach
   d. cost approach

10. Which of the following factors will not be used by the lender when analyzing if the borrower has the ability to repay the loan?
    a. the length of loan term
    b. the existing debt burden
    c. the gross monthly income
    d. the loan amount

11. What key factor does the underwriter analyze when determining if a borrower will be able to meet the demands of loan repayment?
    a. loan size
    b. property value
    c. existing debt burden
    d. loan terms

12. The borrower would be required to carry flood insurance in which of the following circumstances:
    a. The wholesale lender has a policy and practice of requiring flood insurance on all purchase money loans.
    b. The appraisers report indicates the subject property is located in a floodplain.
    c. The appraiser finds indications of water in the basement.
    d. One of the borrowers refuses to take the loan without the added protection of flood insurance.

13. According to FHA guidelines, how is the monthly Mortgage Insurance Premium (MIP) the borrower must pay determined?
    a. the borrower's income
    b. the loan amount
    c. the loan to value
    d. the sales price

14. When flood insurance is required because the property is located in a flood zone, which type of insurance would be appropriate?
    a. property and casualty insurance
    b. hazard insurance
    c. (NFIA) FEMA's National Flood Insurance Program
    d. homeowner's insurance with a flood addendum

15. Fannie Mae guidelines allow an appraiser to make net adjustments to comparable sales of up to ____ percent in a residential loan?
    a. 10%
    b. 15%
    c. 20%
    d. 25%

16. When your borrower does not wish to furnish the requested information in the Government Monitoring section of the 1003, what are your responsibilities?
    a. check the opt out box and leave it blank
    b. if the application is taken face-to-face, then check the opt out box and complete the section based upon visual observation
    c. refuse to continue with the application
    d. If the application is taken over the telephone, check the opt out box and complete the section on a best efforts basis.

17. Which of the following does the appraiser consider in the "cost approach" appraisal method?
    a. county median value of similar homes
    b. the replacement cost of the house plus the lot
    c. the average cost of home values in the neighborhood
    d. the replacement cost of three similar homes

18. All of the following would be found on the 1003 application except?
    a. purpose of the loan
    b. rate of interest, taxes and insurance
    c. assets and liabilities
    d. closing costs

19. None of the following are included in the borrower's bottom-end ratio except?
    a. the ratio of the PITI to annual income
    b. all consumer debt, housing expense and auto loans
    c. P&I payments minus monthly income
    d. PITI to monthly income ratio

20. When using the sales approach, the appraiser will include which of the following?
    a. three comparable homes, recently sold
    b. three comparable properties within county limits
    c. three comparable listings and three like sales
    d. countrywide comparables and recent listings

21. Why would a borrower choose to pay a discount point on their loan?
    a. to pre-pay the broker's origination fee
    b. to permanently buy down the note rate
    c. in order to avoid paying closing costs
    d. in order to do a "no cost" loan

22. The borrower's front-end debt to income ratio is concerned with none of the following except?
    a. credit card payments
    b. reserves
    c. ability to make the house payment
    d. credit scores

23. The cost approach method of appraising considers none of the following except?
    a. replacement value of improvements
    b. comparable market value
    c. income approach
    d. comparable sales value

24. It is customary when underwriting a loan to analyze a borrower's "capacity" in order to?
    a. define the most suitable loan product
    b. determine if the borrower is capable of paying back the loan
    c. determine risk and price the interest rate
    d. guide the borrower into the right loan term

25. All of the following information is required on the 1003 except which of the following?
    a. income, assets and liabilities
    b. marital status, age and time on the job
    c. race, sex and ethnicity
    d. dependants, age and marital status

26. Your borrower comes to you for a loan to buy a $225,000 home. They request a 15 year fixed rate 1st mortgage and are bringing $25,000 for the down payment. You are able to qualify them for a FHA loan at 89% LTV at 6%. Which of the following statements is most true?
    a. The monthly PMI will cover every dollar borrowed above 80% LTV.
    b. The upfront MIP and the monthly MIP can be dropped in 5 years and 78% LTV.
    c. The borrower must pay for upfront MIP and there is no monthly MIP required.
    d. All FHA borrowers must pay the upfront MIP premium and because this is a 15 year term below 90% LTV the monthly MIP can be canceled as soon as the LTV reaches 78%. There is no 5-year consideration.

27. In conjunction with a residential appraisal report, the "Market Conditions Addendum" produced by the appraiser, provides all the following information except?
    a. the market absorption rate
    b. housing trends and existing of foreclosures
    c. the subject property and description of improvements
    d. an inventory analysis

28. The HUD Settlement Cost Booklet is not required in any of the following transactions except?
    a. a purchase of a new home
    b. a HELOC second mortgage
    c. a Reverse mortgage
    d. a refinance of a primary residence

29. The statement that the "payment or loan terms can change" is found on what type of disclosure?
    a. HUD-1 or HUD-1A Settlement Statement
    b. Transfer of Servicing Disclosure Statement
    c. ARM Disclosure
    d. The initial escrow statement

30. In which of the following scenarios would you not be required to provide the CHARM booklet?
    a. The borrower asks for a 3/1 ARM loan then before the TIL is provided they switch to a 30 year fixed.
    b. At initial application you discuss with your borrowers the differences between a 3/1, 5/1 and 7/1, then they decide to do a 20-year conventional loan.
    c. You provide the payment and cost analysis between the 15, 20 and 25 year conventional and they decide to go with the 15-year term.
    d. After completing the application process and early disclosures have been sent your borrower switches from a 20-year term to a 10/1 conventional.

31. The loan commitment letter will specify all of the following except?
    a. the closing agent and date of closing
    b. loan amount and interest rate
    c. date of expiration
    d. time for acceptance from the borrower

32. Prior to the origination of what type of loan is a “standby commitment” issued?
    a. Reverse mortgage
    b. Home Equity Line of Credit
    c. Home Improvement Loan
    d. an interim Construction Loan

33. The Lock-In Agreement is signed by the borrower in order to?
    a. Lock-in closing date and times
    b. Lock-in the loan terms and costs
    c. Lock-in the interest rate
    d. Lock-in the lender to an interest rate and its expiration

34. When providing Constructive Notice of a sale and for the Deed to be transferred it must provide all of the following except?
    a. must be accepted by the purchaser
    b. must be free of all title defects
    c. must be witnessed
    d. must be recorded at Register of Deeds

35. Your borrower has a $25,000 HELOC behind a first mortgage loan that they want you to refinance. The borrower wants to pay down the home equity line of credit to $5,000 and leave the full line open. Assuming there is equity to do so, what documentation will the new lender require from the creditor that holds the HELOC in order to meet the borrower’s request?
    a. lien disclaim letter
    b. quitclaim release
    c. letter of subordination
    d. statutes of lien subordination

36. When is the originating party required to provide the “Notice of Right to Receive Appraisal Report” to the borrower?
    a. along with the RESPA doc’s
    b. as part of the TIL and other early disclosures
    c. within 30 days of receipt of the appraisal
    d. along with notice of action

37. When is the Servicing Transfer Statement required to be provided?
    a. 10 days before the transfer of servicing
    b. 15 days after servicing begins
    c. 15 days before the transfer of servicing
    d. 30 days before the transfer of servicing

38. On the Uniform Residential Loan Application the MLO is allowed to state all the following when determining marital status except?
    a. single
    b. married
    c. unmarried
    d. separated

39. Under what circumstances would the underwriter require the debts of a non-borrowing spouse be included in the applicant’s qualifying debt ratios?
    a. when the borrower’s income is not sufficient to qualify
    b. if the credit worthiness of another borrower is required for loan approval
    c. when the borrower resides in a community property state
    d. when the borrower’s debt ratios are too high for the loan requested

40. What percentage of rental income will the underwriter allow for qualifying purposes?
    a. 50%
    b. 70%
    c. 75%
    d. 100% of net rental income

41. E & O insurance is carried by the abstractor in order to?
    a. defray the costs of title litigation
    b. provide additional protections for lenders
    c. mitigate the risks for lender's title insurance
    d. protect against mistakes in the title search

42. You have two married couples applying together with "joint tenancy" and all four people will be listed as borrowers on the loan application. How many must return the "Right to Cancel" in order to rescind the loan?
    a. one
    b. all four
    c. one borrower from each marriage
    d. three to establish a majority

43. The appraiser will make a formal comment on any comparable sale used that is more than how many months old?
    a. 3
    b. 4
    c. 6
    d. 9

44. Barry is buying a four-unit apartment building as part of his retirement plan to own six investment properties. What type of approach will be used by the appraiser to determine the property's value?
    a. commercial approach
    b. income approach
    c. investment approach
    d. able to be leased occupancy approach

45. In lien theory states, the borrower retains both legal and equitable title. How do title theory states differ?
    a. the lender secures the loan with a mortgage
    b. the borrower retains equitable title while conveying legal title
    c. the borrower retains legal title while conveying equitable title
    d. the borrower maintains possession while conveying equitable rights

46. The chain of title is:
    a. recorded ownership history of a property
    b. recorded history of all loans secured by the property
    c. the "Actual Notice of Sale" recorded over time
    d. the "Constructive Notice of Sale" recorded over time

47. A consumer's pay history may be retained in a consumer report for 7 years. For how long may a bankruptcy be reported?
    a. 5 years from date of discharge
    b. 7 years from the "order of relief"
    c. for up to ten years of filing
    d. for up to ten years from date of discharge

48. What type of loans will Fannie Mae and Freddie Mac purchase and or securitize?
    a. ALT-A and FHA
    b. Non-prime
    c. Conventional
    d. Non-conforming

49. How long is the mortgage insurance premium required to be paid?
    a. for 5 years and 80% LTV
    b. until the borrower's equity is 22 % or more
    c. for 5 years
    d. 7 years and 78% to LTV

50. A Mortgage Backed Security is used primarily for?
    a. stabilizing capital flow to the primary market
    b. a secondary market investment vehicle
    c. distributing risk over the broadest possible market
    d. mitigating sub-prime and ALT-A risk by "pooling" capital

51. Which type of non-traditional loan product can adjust monthly, offers the borrower a choice of 3 different payments and can result in negative amortization?
    a. a Home Equity Line of Credit with a payment cap
    b. a Payment Option Adjustable Rate Mortgage
    c. an Interest Only Option ARM with a payment cap
    d. an Alternative Documentation Loan product

52. All Adjustable Rate Mortgages (ARM's) are tied to a specific index. What does LIBOR represent?
    a. Lifetime Interest Before Origination Rate
    b. London Interstate Bank Offered Rate
    c. London InterBank Offered Rate
    d. London Interpol Bank Offered Rate

53. What does the acronym PFC stand for?
    a. Price for Credit
    b. Prepaid from Credit
    c. Prepaid Finance Charges
    d. Payment for Credit

54. What does the acronym POC stand for and what would it include?
    a. Paid Outside of Closing – Y.S.P.
    b. Paid Outside of Closing – origination fee
    c. Principal of Credit – monthly principal payment
    d. Prepaids of Credit – interim interest

55. The Costs of Funds "COFI" may be used on all the following type loans except?
    a. HELOC – Variable Rate Mortgages
    b. Fed COFI related ARM loans
    c. 11^{th} district related ARM loans
    d. 2/28 sub-prime loans

56. The loan primarily used for home purchases in rural areas is called?
    a. sub-prime
    b. non-conforming
    c. USDA RD
    d. FHA

57. What is the key benefit to lenders of the FHA program?
    a. they are easy to underwrite
    b. FHA loans are insured by the government
    c. FHA loans are made primarily to low to moderate income borrowers
    d. They are low documentation, requiring no escrows

58. The one loan that does not require any income, credit or even loan repayment is?
    a. Home Equity Line of Credit (HELOC)
    b. No Income, No Asset Loan (NINA)
    c. A Home Equity Conversion Mortgage (HECM)
    d. A Payment Option ARM (POA)

59. A non-conforming loan is best described as which of the following?
    a. sub-prime loan above $417,000
    b. a loan exceeding Fannie Mae and Freddie Mac loan limits
    c. any type of government sponsored loan
    d. a category of loans including Jumbos, HELOCS, Reverse and FHA

60. Which term best describes the release of the lien following a loan's repayment?
    a. Acceleration b. Reconveyance c. Recourse d. Redemption

61. All the following describe a loan not sponsored by the Federal government except?
    a. conventional b. non-conforming c. USDA RD loan d. Conforming

62. What does APR stand for?
    a. Annual Percentage Rate
    b. Actual Percentage Rate
    c. Accurate Property Rights
    d. Annual Perception Rate

63. VA loans require all of the following except?
    a. a funding fee
    b. a certificate of reasonable value
    c. mortgage insurance premium
    d. eligibility certificate

64. Periodic payments resulting in increasing loan balances is called?
    a. Predatory Lending
    b. Negative Amortization
    c. Payment Shock
    d. Interest-Only Option

65. What is Freddie Mac's and Fannie Mae's purpose in the secondary market?
    a. to provide a source of funds for primary market lenders
    b. to supply capital to investors and insurers
    c. to fund loans and capitalize pools
    d. to securitize pools and approve loans

66. All of the following may refer to a junior lien except?
    a. a second mortgage
    b. Home Equity Loan (HEL)
    c. subordinate loan
    d. purchase money first mortgage

67. In high cost geographic areas of the country, which type of loan is typically not used?
    a. Jumbo
    b. Reverse
    c. USDA
    d. Non-conforming

68. Regarding nontraditional ARM's, the interagency guidance requires MLO's to communicate to borrowers the risks of all the following except?
    a. payments will increase when the interest rate resets
    b. payment option ARM's are linked to predatory lending
    c. they could experience payment shock after the initial option period expires
    d. the loan could have the potential for negative amortization

69. Which of the following is not considered a draw back to a biweekly mortgage loan?
    a. the borrower will pay one full extra payment per year
    b. there are typically servicer fees involved
    c. the borrower may have to pay a slightly higher rate
    d. there is a higher likelihood for late payments

70. All of the following caps are associated with Adjustable Rate Mortgages except?
    a. Adjustment Caps
    b. Payment Caps
    c. Rate Caps
    d. Lifetime Caps

71. What is a margin?
    a. the differences between the index and the note rate
    b. the spread between the start rate and the contract rate
    c. the difference between the index and the start rate
    d. the cost of the loan subtracted from the retail rate.

72. All of the following may be risks of nontraditional ARM's except?
    a. short term, low introductory rate
    b. lower monthly payments
    c. negative amortization
    d. no lifetime caps

73. Which of the following is not a closed-end loan?
    a. a Home Equity Loan
    b. a Home Equity Line of Credit
    c. a 30 year fixed rate conventional
    d. a 5/1 Arm

74. The difference between an ARM and a balloon is best described as?
    a. the lender discounts the rate because the borrower assumes some defined risk
    b. a balloon loan payment is fixed
    c. a balloon loan payment is typically based upon a 30 year amortization
    d. a balloon is by definition a nontraditional product

75. In a typical ARM loan, what determines the change in the interest rate?
    a. the interim adjustment cap
    b. the margin
    c. the index plus the margin
    d. the index

76. When applying for a Reverse Mortgage the borrower must meet all the following conditions except?
    a. meet the qualifying debt ratio minimums
    b. attend reverse mortgage counseling before applying
    c. be a minimum of 62 years of age
    d. live in the home as a primary residence

77. Loans made to high credit score borrowers with reduced documentation are called?
    a. sub-prime
    b. ALT-A
    c. Conforming
    d. Non-conforming