Chapter 1

1.1 Apply Your Knowledge, Page 5

Match the term on the left with the statement that best describes it.

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. FDIC</td>
<td>1. Covers loss due to default and property value decline</td>
</tr>
<tr>
<td>B. FHA</td>
<td>2. Insure bank deposits</td>
</tr>
<tr>
<td>C. Fully Amortizing</td>
<td>3. Largest mortgage loan insurer</td>
</tr>
<tr>
<td>D. Jumbo Loans</td>
<td>4. Level loan payments</td>
</tr>
<tr>
<td>E. Mortgage Insurance</td>
<td>5. Non-conforming loan</td>
</tr>
</tbody>
</table>

Answers key: A-2, B-3, C-4, D-5, E-1

1.2 Knowledge Check, Page 6

The Federal Deposit Insurance Corporation (FDIC) was created in 1933 to insure consumer deposits.

Rationale: The FDIC was created in 1933 as part of the New Deal, to insure commercial bank deposits against bank failures and bank runs. [for more information, see www.fdic.gov/about/learn/learning/when/1930s.html]

1.3 Knowledge Check, Page 9

1. When borrowers and mortgage loan originators come together to negotiate terms and close mortgage loan transactions, this is referred to as
   A. hypothecation.
   B. mortgage brokered loans.
   C. the primary market.
D. the secondary mortgage market.

Correct answer is C. - When borrowers and lenders negotiate mortgage terms and close mortgage loans, they are acting in the primary market.

2. Mortgage bankers fund mortgage loans with all of the following EXCEPT
   A. cash.
   B. corporate capital.
   C. hedge funds.
   D. warehouse lines of credit.

Correct answer is C. - The mortgage banker, as a correspondent, closes the loan with internally generated funds in its own name or with funds borrowed from a warehouse lender. [for more information, see http://www.ffiec.gov/exam/3P_Mtg_Fraud_wp_oct04.pdf, page 7]

1.4 Knowledge Check, Page 13

Conforming loans follow loan-to-value and income expense guidelines that are set by secondary market agencies such as
   A. CFPB.
   B. FFIEC.
   C. FNMA.
   D. PMI companies.

Correct answer is C. - FNMA (Fannie Mae) creates national underwriting criteria, which is the guideline to the loan characteristics that it will purchase in the secondary market.

Chapter 1 Quiz, Page 14

1. Which is NOT a function of the secondary markets?
   A. moderate effects of local real estate cycles
   B. provide lenders with money to make more loans
   C. serve as a depository for consumer assets
   D. standardize underwriting guidelines

Correct answer is C. - Secondary markets are non-depository entities that purchase closed loans, which conform to the guidelines set by the secondary market. They are not depository institutions and cannot accept consumer deposits.
2. The Consumer Financial Protection Bureau was created by the
   A. **Dodd-Frank Wall Street Reform and Consumer Protection Act.**
   C. Federal Reserve Act.
   D. National Housing Act.
Correct answer is A. - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the CFPB. [see http://www.consumerfinance.gov/the-bureau/]

3. Mortgage brokers
   A. **act as intermediaries between borrowers and lenders.**
   B. originate and service mortgage loans.
   C. provide funding for mortgage loans.
   D. underwrite mortgage loans.
Correct answer is A. - A lender is a financial institution that makes loans directly to you. A broker does not lend money. A broker finds a lender. A broker may work with many lenders. [see http://www.consumerfinance.gov/askcfpb/130/whats-the-difference-between-a-mortgage-broker-and-a-mortgage-lender.html]

4. Which entity was established in 1932 as a cooperative to finance housing in local communities?
   A. Federal Home Loan Mortgage Corporation
   B. **Federal Home Loan Banks**
   C. Federal Housing Finance Agency
   D. Government National Mortgage Association
Correct answer is B. - Created by Congress, the Federal Home Loan Banks have been the largest source of funding for mortgage lending for nearly eight decades. [see http://www.fhlbanks.com/overview_history.html]

5. Which is NOT a primary lender for residential properties?
   A. commercial banks
   B. **insurance companies**
   C. mortgage companies
   D. savings and loan associations
Correct answer is B. According to the Federal Reserve, of all major financial institutions that hold single-family residential debt, life insurance companies held the least amount of one to four family residential debt in the United States. [see http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm]

6. Which statement about Ginnie Mae is TRUE?
   A. Ginnie Mae buys loans from commercial banks and mortgage companies.
   B. **Ginnie Mae guarantees mortgage-backed securities.**
   C. Ginnie Mae is a participant in the primary market.
   D. Ginnie Mae is a private corporation.

Correct answer is B. Ginnie Mae guarantees investors the timely payment of principal and interest on MBS backed by federally insured or guaranteed loans — mainly loans insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA). [see http://ginniemae.gov/pages/default.aspx]
Chapter 2

2.1 Knowledge Check, Page 20

The Dodd-Frank Wall Street Reform and Anti-Predatory Lending Act of 2010 (Dodd-Frank Act) established the Consumer Financial Protection Bureau.

A. true
B. false

Correct answer is A. True - Under Title XIV, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Consumer Financial Protection Bureau.

2.2 Knowledge Check, Page 20

The Mortgage Reform and Anti-Predatory Lending Act (Title XIV under the Dodd-Frank Act) requires MLOs to apply qualified loans as one way to prevent predatory lending practices.

A. true
B. false

Correct answer is A. True - Title XIV established the new category of qualified mortgages as a requirement to control predatory lending.

Chapter 2 Quiz, Page 23

1. The Consumer Financial Protection Bureau was created by the
   A. Dodd-Frank Wall Street Reform and Consumer Protection Act.
   C. Federal Reserve Act.
   D. National Housing Act.

Correct answer is A. - The CFPB was created under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

2. The Consumer Financial Protection Act combined consumer protection responsibilities under the CFPB from the following agencies EXCEPT the
   A. Department of Commerce.
   B. Department of Housing and Urban Development.
C. Federal Deposit Insurance Corporation.
D. Federal Trade Commission.

Correct answer is A. - The Act did not affect consumer protection by the Department of Commerce.

3. Which government sponsored enterprise (GSE) holds the largest amount of home loan mortgages?
A. Federal Agricultural Mortgage Corporation
B. Federal Home Loan Mortgage Corporation
C. Federal National Mortgage Association
D. Government National Mortgage Association

Correct answer is C. - Fannie Mae (FNMA) is the GSE that holds the largest amount of home mortgages; approximately $3 trillion in 2013.

4. Which legislation designates federal disclosure requirements under CFPB?
A. Fair Credit Reporting Act (FCRA)
B. The Fair and Accurate Credit Transaction Act (FACTA)
C. Truth in Lending Act (TILA)
D. U.S. Patriot Act

Correct answer is C. - The Truth in Lending Act (Regulation Z) is recognized as legislation that provides federal disclosure requirements.

5. Which legislation designates federal privacy protection and consumer identification requirements under CFPB?
A. Equal Credit Opportunity Act (ECOA)
B. Fair Credit Reporting Act (FCRA)
C. Home Ownership and Equity Protection Act (HOEPA)
D. Truth in Lending Act (TILA)

Correct answer is A. - The Equal Credit Opportunity Act (Regulation B) is recognized as legislation that provides federal privacy protection and consumer identification requirements.

6. Which legislation designates requirements that prohibit predatory lending under CFPB?
A. Fair Credit Reporting Act (FCRA)
B. Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act)
C. Truth in Lending Act (TILA)
D. U.S. Patriot Act

Correct answer is B. - The Secure and Fair Enforcement for Mortgage Licensing Act (Regulation B) is recognized as legislation that provides requirements which prohibit predatory lending.

7. All of the consumer protection responsibilities have been transferred to the CFPB for rule-making and regulatory authority EXCEPT the

   A. **Fair Housing Act.**
   B. Federal Deposit Insurance Corporation.
   a. Office of Thrift Supervision.

Correct answer is A. - Section 1011 of Subtitle A of Title X created the Consumer Financial Protection Bureau (CFPB) whose task is to enforce consumer financial protection laws.
Chapter 3

3.1 Knowledge Check, Page 26

When you think about RESPA rules and regulations, all of the following are part of the purpose for the rules and regulations EXCEPT to help consumers

A. become better informed borrowers.
B. compare available options.
C. obtain the lowest interest rate.
D. shop for settlement services.

Correct answer is C. - RESPA’s purpose is to help borrowers be better informed, compare options, and shop for settlement services. Obtaining the lowest rate is not a specific goal of the Act.

3.2 Knowledge Check, Page 27

According to RESPA, all of the following are considered settlement service providers EXCEPT

A. appraisers.
B. attorney who prepares loan documents.
C. escrow agents.
D. landscaping companies.

Correct answer is D. - Any entity that provides a service after the loan closes is not a settlement service provider, according to RESPA guidelines.

3.3 Apply Your Knowledge, Page 32

Review the following questions concerning ABC Mortgage Company, XYZ Mortgage Company, and A&B’s settlement with the Consumer Financial Protection Bureau and the violations that they are alleged to have committed. Consider how federal regulations, most notably RESPA, are the subject of the violations that occurred as a result of marketing agreements and referral fees paid. Discuss each question as a group and write down your answers in the space provided. Have your group spokesperson be prepared to share and discuss the group’s opinions. Feel free to express your opinions and answers in the classroom also.

1. How do marketing arrangements and agreements affect consumers and the settlement service provider costs they pay?
Marketing arrangements and agreements affect the consumer by concealing or omitting information that could cause the consumer to make an erroneous decision or that might cause unreasonable harm to the consumer. When an unearned fee or referral is paid to a settlement service provider, the costs of the transaction are likely to increase. Consider the chart below to see how a referral fee paid for a loan referral may impact the cost to the consumer:

**The Impact of Unearned Fees Paid by a Consumer ($1000 LO Comp)**

<table>
<thead>
<tr>
<th>Loan w/o Fee</th>
<th>Loan w/ Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$200,000</td>
</tr>
<tr>
<td></td>
<td>$200,000</td>
</tr>
<tr>
<td>Referral Fee pd. To MLO</td>
<td>$500</td>
</tr>
<tr>
<td>LO Compensation Rate</td>
<td>50%</td>
</tr>
<tr>
<td>Points to Pay LO Comp</td>
<td>1 points</td>
</tr>
<tr>
<td></td>
<td>1.5 points</td>
</tr>
<tr>
<td>Commission required to pay referral fee</td>
<td>$1500</td>
</tr>
<tr>
<td>$ cost of points to consumer</td>
<td>$2000</td>
</tr>
<tr>
<td></td>
<td>$3000</td>
</tr>
<tr>
<td>Additional $ cost of points to consumer with referral fee</td>
<td>$1000</td>
</tr>
</tbody>
</table>

Would the additional $1000 cost to the borrower need to be disclosed or explained to the consumer? According to the settlement agreement, one of the violations against ABC and XYZ was the omission of a material fact (increase in cost) to the consumer.

2. “Under agreements and understandings between Title and the loan officers, the loan officer exercised their ability to influence consumers in settlement transactions to us Title for settlement services.” What potential affect could a particular choice of a service provider have on the consumer if a loan officer makes the choice?

An MLO has broad discretion in the engagement of settlement service providers by ordering title services, credit reporting services, and engaging appraisal management.
companies. When there is no monetary compensation or other benefit derived from the selection of a service provider, which does not affect the consumer cost, no violation occurs. Remember, a kickback is defined as “anything of value” in exchange for “referrals of business.” In this case, cash was given on a limited basis, but marketing services, which are considered a thing of value, were provided in exchange for settlement business.

3. What services did Title provide to ABC and XYZ in exchange for their referrals of business?

The services provided include:

- Cash payments to Defendant B, were made in lieu of payments for the referrals by Defendant A
- Marketing leads purchased and provided to ABC and XYZ loan officers, either at no cost or at a reduced cost
- Printed, folded, stuffed, and mailed marketing materials for the loan officers

4. The cost of the services provided by Title to the MLOs seems insignificant when compared with the fines that were assessed. What appears to have had a greater impact on the amount of fines the CFPB assesses?

It appears that ABC had far less involvement and referred fewer loans to First Title for settlement services than XYZ. The settlement highlights the fact that ABC, who received the lesser fine:

- Self-identified the problematic practices
- Did not avoid warnings issued, which included a potential lawsuit, as XYZ did
- Initiated a remediation plan
- Assisted in the investigation

The Bulletin on Business Conduct details an enforcement plan for those defendants who assist the CFPB and who self-identify and self-report violations that occur.

5. Management for XYZ appeared to have knowledge of what was taking place with their MLOs. What information in the complaint validates this statement? Does the knowledge and the apparent complacency of XYZ have a possible effect on the penalty imposed?

Branch managers of XYZ were in a position to have knowledge of the illegal activities because managers were required to review and approve marketing requests. The purchase of qualified refinance leads and advertising material was approved by a separate department also.

The branch managers had knowledge of the illegal activities when they ceased to allow loan officers to use the branch postage machine. XYZ had repeated warnings about the illegal activities, including a federal lawsuit, but failed to take corrective action. All of
this inaction by XYZ was cited in the complaint and likely was a factor in the $34 million dollar fine.

3.4 Knowledge Check, Page 39

A Mortgage Servicing Disclosure Statement states all of the following EXCEPT

- a. if the lender will engage in the servicing of the mortgage loan for which the applicant has applied.
- b. the resolution of a servicing complaint.
- c. a statement that such entity intends to assign, sell, or transfer servicing of such mortgage loan before the first payment is due.
- d. whether the servicing of the loan may be assigned, sold, or transferred.

Correct answer is B. - 12 CFR §1024.33(a) states the Servicing Disclosure Statement must indicate whether the servicing of the loan may be assigned, sold, or transferred to any other person at any time while the loan is outstanding.

3.5 Knowledge Check, Page 39

The TILA-RESPA Integrated Disclosures were implemented to

A. help consumers become better and more informed shoppers.
B. provide a new format for reverse mortgages.
C. provide new forms that will yield higher-cost loans.
D. save the MLO document preparation time.

Correct Answer is A - the Director of the CFPB stated, “To help consumers become better and more informed shoppers, we are improving mortgage disclosures.”

3.6 Apply Your Knowledge, Page 48

An MLO needs to issue a Loan Estimate. He must have a valid changed circumstance. Review the following scenarios and determine which are allowable and which are not. Be prepared to discuss your answers.

1. The appraisal comes in and shows the borrowers to have more equity than originally thought when they applied for their rate and term refinance. They
request a change to a cash out loan.

An acceptable changed circumstance for a borrower’s request to change the type of loan is permissible. A new Loan Estimate will need to be issued due to the change in loan type and risk-based pricing delivery fees. If a Closing Disclosure has already been delivered to the borrower, a corrected Closing Disclosure with the borrower requested changes will need to be delivered to the borrower and a new 3 business day waiting period will apply.

2. The loan originator neglected to disclose the review appraisal fee when the underwriter conditioned for it.

If an originator fails to disclose an increase in fees within three days of receipt of the fee imposition, the originator/creditor will be subject to lender tolerance charges.

3. The appraisal was received, but the value was less than anticipated. The loan-to-value now exceeds 80%.

When an appraisal is received and mortgage insurance is required as a result of a lower appraised value, this is an acceptable changed circumstance and the additional cost and the increase in monthly payment must be re-disclosed to the borrower.

4. The borrowers qualify for and decide they can afford a 15-year fixed rate mortgage rather than the 30-year fixed rate mortgage for which they originally applied.

An acceptable changed circumstance would be the redisclosure of the increased payment due to a shorter loan term made by the borrower.

3.7 Apply Your Knowledge, Page 49

1. If a revised Loan Estimate is emailed to the borrower (with his permission), it is considered received

   A. the day the email is sent.
   B. the next business day after the disclosure is emailed.
   C. three business days after the email is sent if not informed of receipt by the borrower sooner.
   D. the seventh business day after the email is sent.

   Correct Answer is C - A revised Loan Estimate is considered received by the
consumer on the day it is provided. If it is mailed or delivered electronically (email, fax, etc.), the consumer is considered to have received it three (3) business days after the disclosures are mailed or transmitted.

2. When a Loan Estimate is provided to a borrower, it is considered to be provided in good faith when the actual closing costs are lower as shown on the

A. Closing Addendum.
B. **Closing Disclosure**.
C. Good Faith Estimate.
D. HUD 1 Settlement Statement.

**Correct Answer is B** - *The Closing Disclosure is the document that the actual settlement service provider charges are provided. When the closing costs disclosed to the borrower on the Loan Estimate are lower than the costs provided on the Closing Disclosure, the MLO is considered to have acted in good faith.*

3. With a revised Loan Estimate, a valid changed circumstance must exist. A valid change circumstance is considered to be all of the following EXCEPT

A. a borrower requested change.
B. an event that is beyond the control of the borrower.
C. information known at the time of application but subsequently changed.
D. **MLO neglected to charge an origination fee initially.**

**Correct Answer is D** - *If the MLO initially neglects to charge an origination fee, it may not be added to the Loan Estimate at a later date after it is delivered to the borrower (even in the event that another valid change of circumstance occurs).*

4. Third party fees, shown on the Loan Estimate, include all of the following EXCEPT

A. a credit report fee.
B. a flood cert fee.
C. hazard insurance premiums.
D. **a lock in fee.**

**Correct Answer is D** – *A lock in fee is paid to the lender for locking an interest rate or extending a loan interest rate lock. Since it is retained by the lender and not passed on to a third party, it is not considered a third party fee.*

3.8 Knowledge Check, Page 62
1. When a changed circumstance has occurred to the loan product and the Closing Disclosure has been delivered to the borrower, the creditor must
A. call the borrower and inform him of the fee change.
B. complete a valid changed circumstance form and have the borrower sign it.
C. deliver a revised Closing Disclosure and apply a new three (3) day waiting period before consummation.
D. make redisclosure.

Correct Answer is C - If the Closing Disclosure has changed because of the loan’s APR, product change, or if a prepayment penalty has been added, the Borrower must receive a new Closing Disclosure and be given a new three (3) day waiting period prior to loan consummation.

2. When a numerical error has occurred to Closing Disclosure and the initial Closing Disclosure has been delivered to the borrower, the creditor must
A. call the borrower and inform him of the fee change.
B. complete a valid changed circumstance form and have the borrower sign it.
C. deliver a revised Closing Disclosure and apply a new three (3) day waiting period before consummation.
D. make redisclosure.

Correct Answer is D - If the Closing Disclosure has changed because of a numerical error, creditors must ensure that the consumer receives a corrected Closing Disclosure but are not required to provide an additional three (3) day waiting period.

3.9 Apply Your Knowledge, Page 62

Introduction: In this discussion activity, you will apply your knowledge of the Loan Estimate and the Closing Disclosure involving decisions related to their use.

Directions: Review the scenario, sample Closing Disclosure, and the information presented about it. Then, answer the discussion questions. Be prepared to discuss your responses with other participants.

Description: A borrower applies for a $200,000 refinance loan. He uses the services of a mortgage broker who charges a 1% origination fee and a $600 processing fee. The broker intends
to broker the loan to a wholesale lender who charges a $1,000 administration fee.

Discussion Questions:

1. **What dollar amount must be shown on the Loan Estimate on page 2, Section A “Origination Charges”?**
   
   The combined amounts of the broker fees ($2,600) and the wholesale lender administration fee ($1,000) for a total fee of $3,600.

2. **If the mortgage broker is unsuccessful at obtaining approval with the first lender and submits the loan file to a second lender whose administration fee is $1,200, what can the broker do about the fee increase?**
   
   The mortgage broker may not increase the origination charge fee once it has been disclosed to the borrower and accepted. The increase of this fee does not qualify as an acceptable changed circumstance.

3. **If the dollar amounts shown on the Closing Disclosure for items listed in Section B of the “Loan Costs” page 2 total $4,625, what is the maximum amount for these charges that can be shown on the Closing Disclosure on page 2, Section B?**
   
   The closing costs shown in Section B of the Closing Disclosure have zero tolerance for change, therefore the maximum amount for these charges to the borrower is $4,625.

4. **If the actual fees charged on the Closing Disclosure for items listed in Section B of the “Loan Costs” page 2 total $6,000, what must the mortgage broker do?**
   
   The mortgage broker must pay a tolerance cure of $1,375 at closing or within 60 days of consummation because no increase is allowed on Section B fees at consummation.

3.10 Apply Your Knowledge, Page 66

**Introduction:** In this discussion activity, you will apply your knowledge of TILA disclosure requirements and determining Annual Percentage Rates (APR).
Directions: Review the following scenario, then answer the discussion questions. Be prepared to discuss your responses with other participants.

Description: Two borrowers each apply for a mortgage loan of $125,000. Their closing costs are $3,500 for each loan and the interest rate charged is 4.25%. The first borrower receives a 30-year fixed rate mortgage and the second borrower secures a 15-year fixed rate mortgage.

Discussion Questions:

1. Which borrower is quoted the highest Annual Percentage Rate?
   The APR tells a borrower the total cost of financing a loan in percentage terms, as a relationship of the total finance charges to the total amount financed. Therefore, if the term is less, the interest paid and the finance charges will be spread over a shorter period of time, increasing the APR.

2. Which borrower will pay the higher finance charges imposed on the loan?
   The total finance charge includes the repayment of interest over the term of the loan. A 30-year mortgage will have increased interest costs due to a longer repayment term.

3. Which borrower will pay more principal repayment?
   Regardless of the term of the loan or interest repaid, the principal to be repaid is the same amount ($125,000) for each loan. Only the interest charge will vary.

3.11 Knowledge Check, Page 71

The purpose of the Ability-to-Repay regulation is to (select all correct responses).
   A. allow a borrower to sue the lender in Federal District court to cancel the loan.
   B. allow a presumption that the lender followed Ability-to-Repay guidelines if certain requirements are made.
   C. protect the borrower from a loan they may not be able to afford.

Correct answers are B & C - The Ability-to-Repay provision of the Qualified Mortgage Regulation protects the borrower from entering into a loan they cannot afford. It also gives the lender the presumption that it followed the guidelines if certain requirements of the rule are met.
A mortgage broker or banker who is writing an advertisement for the local newspaper, which will also be published on an Internet website, should consider which regulation to create a compliant ad?

A. Fair Housing Act  
B. Regulation B  
C. Regulation X  
D. Regulation Z

Correct answer is D. - Regulation Z, also known as The Truth In Lending Act, regulates advertising terms and disclosures.

Chapter 3 Quiz, Page 81

1. Which law requires MLOs to provide borrowers with Loan Estimate of closing costs?
   A. FCRA  
   B. HMDA  
   C. RESPA  
   D. TILA

Correct answer is D. - TILA requires the disclosure of the Loan Estimate to borrowers within 3 business days of a completed application.

2. The TILA-RESPA Integrated Disclosures are designed to help consumers
   A. become better and more informed shoppers for consumer loans.  
   B. know the methods available to file a consumer complaint.  
   C. understand property appraisals.  
   D. understand the right of rescission on a purchase.

Correct answer is A - The Integrated Disclosures are designed to help consumers become better and more informed shoppers according to Director Cordray of the Consumer Financial Protection Bureau.

3. How many business days after closing does the consumer have the right to rescind a refinance
A. 2
B. 3
C. 5
D. There is no right of rescission.

Correct answer is B. - Truth in Lending regulations require a 3 business day right of rescission for borrowers after they sign their owner occupied loan documents.

4. If an advertisement discloses only the APR, what additional disclosures are required?
   A. amount of any finance charges
   B. percentage of down payment
   C. terms of repayment
   D. no additional disclosures are required

Correct answer is D. - When only the Annual Percentage Rate is advertised, no additional disclosures are required, according to TILA.

5. Under what circumstances does RESPA allow a sale to be conditioned on the use of a particular title company chosen by the seller?
   A. if full disclosure is made
   B. if no kickbacks are involved
   C. if no unearned fees are involved
   D. under no circumstances

Correct answer is D. - Section 9 of RESPA prohibits the required use of a particular title company under any circumstances.

6. Which regulation mandates the use of the Closing Disclosure?
   A. Regulation B
   B. Regulation C
   C. Regulation Z
   D. Regulation 1

Correct answer is C. - Regulation Z - Regulation Z implements the Truth In Lending Act, which requires the use of the Closing Disclosure.

7. According to the Homeowners Protection Act, borrowers may request cancellation of their
mortgage insurance premiums when the LTV reaches
A. 75%.
B. 78%.
C. 80%.
D. 82%.
Correct answer is C.

- The Homeowner’s Protection Act permits a borrower to request the
cancellation of mortgage insurance when the current loan balance is 80% of the original sale price
or appraised value, whichever is less.

8. Which fee can be collected prior to delivery of a Truth in Lending Statement and a Good
   Faith Estimate?
   A. appraisal fee
   B. credit report fee
   C. origination fee
   D. No fees can be collected prior to delivery of these disclosures.
Correct answer is B.

- RESPA and TILA Regulations both mandate that only the credit report fee
(bona fide) can be collected prior to the borrower’s receipt of all four mandated disclosures.

9. The APR on a Loan Estimate for a 30-year fixed rate loan is 6.25%, and the APR on the
    Closing Disclosure is 6.5%. After redisclosure, how long must the borrower wait to close the
    loan?
   A. one business day
   B. three business days after redisclosure
   C. seven business days after redisclosure
   D. There is no waiting required since the difference is within the acceptable tolerance.

Correct answer is B.

- The Truth In Lending Act states that if the final Annual Percentage
  Rate shown on the Closing Disclosure varies by more than 1/8% for a Fixed Rate
  Mortgage or 1/4% for an Adjustable Rate Mortgage from the initial disclosure on
  the Loan Estimate, then the borrower must be given an additional three-day
  rescission period to review the new disclosure (Truth in Lending Statement).

10. Which statement about loan origination fees on a Loan Estimate is false?
    A. The fee cannot change unless there is a changed circumstance.
    B. The fee includes services performed by or on behalf of the MLO.
    C. Lender and mortgage broker fees for the same transaction must be itemized.
D. Origination fees must be expressed as a lump sum.

Correct answer is C. - According to TILA, mortgage broker fees and lender fees must be combined Page 2, Section A of the Loan Estimate.

11. Which of these circumstances would NOT be an acceptable reason to provide a revised Loan Estimate to a borrower?
   A. The borrower lost the income from a part-time job and as a result was no longer eligible for the specific loan terms identified in the Loan Estimate.
   B. The borrower requested to change the loan term from 15 to 30 years.
   C. The MLO regretted overlooking certain liabilities in order to qualify the borrower for a better interest rate.
   D. The title company discovered a junior lien on the property that was not considered when preparing the Loan Estimate.

Correct answer is C. - According to TILA, a changed circumstance does not include a mortgage originator overlooking characteristics or liabilities of the borrower.

12. For purposes of initial disclosures, the day on which the offices of the business entity are open to the public for carrying on substantially all the entity’s business functions is known as a
   A. business day.
   B. legal holiday.
   C. rescission day.
   D. work day.

Correct answer is A - TILA defines a business day as the day the business entity is open for substantially all business operations, for the disclosure of the Loan Estimate, the Special Information Booklet, and the Mortgage Servicing Disclosure Statement.

13. The definition of a “Complete Application” includes all of the following EXCEPT the
   A. address of the subject property.
   B. Gross Monthly Income.
   C. most recent two months of bank statements.
   D. name of the borrower.
Correct answer is C. A “complete application” is defined as the receipt of a borrower’s name, social security number (s), gross monthly income, the subject property address, the loan amount, and an estimate of value of the subject. A MLO is prohibited from collecting documents that verify the information related to the application before providing the Loan Estimate.

14. The new Loan Estimate does not apply to all real estate loans. All of the following loan types are exempt from the new disclosures EXCEPT
   A. home equity lines of credit.
   B. home equity loans.
   C. reverse mortgages.
   D. timeshare loans.

Correct answer is B - A home equity loan, which is a closed-end fixed interest rate loan, usually in a subordinate lien position, is not exempt from the requirements of the Loan Estimate.

15. A lender may NOT use _______ on the Loan Estimate.
   A. N/A
   B. POD
   C. TBD
   D. UNK

Correct answer is A - A lender is prohibited from using the term “N/A” on the Loan Estimate. The MLO should leave the space blank rather than insert another phrase.

16. The Closing Disclosure discloses the settlement service provider charges the borrower will pay and all of the following EXCEPT
   A. assumption of the mortgage loan.
   B. escrow account information.
   C. negative amortization features.
   D. rate lock in information.

Correct answer is D. - The closing disclosure, which is provided at closing, does not contain the rate lock in information, as the loan will already be locked and lock terms are disclosed on the Loan Estimate.

17. The total amount of interest a consumer will pay over the loan term as a percentage of the loan amount is referred to as the
A. annual percentage rate.
B. interest plus PMI charges.
C. total finance charge.
D. total interest percentage.

Correct answer is D - Regulation Z defines the total interest percentage as the total amount of interest the consumer will pay expressed as a percentage of the loan amount.

18. When providing the Loan Estimate or a revised Loan Estimate, a business day is considered to be

A. all calendar days except Sundays.
B. all calendar days except Sundays and legal public holidays.
C. the day a business entity is open for business to the public for the purpose of transacting substantially of the entity’s business.
D. the day the Loan Estimate is prepared.

Correct answer is C - Reg. Z states that for the purposes of disclosing the Loan Estimate, a business day is the day the business entity is open for business to the public for the purpose of transacting substantially all of the entity’s business.

19. When providing the revised Loan Estimate prior to the delivery of the Closing Disclosure, a business day is considered to be

A. all calendar days except Sundays.
B. all calendar days except Sundays and legal public holidays.
C. the day a business entity is open for business to the public for the purpose of transacting substantially of the entity’s business.
D. the day the Loan Estimate is prepared.

Correct answer is B - Regulation Z states that for the purposes of redisclosing the Loan Estimate, a business day is considered to be all calendar days except Sundays and legal public holidays.

20. If a changed circumstance exists prior to loan consummation, a creditor may NOT provide a revised Loan Estimate to a consumer within ___ business day(s) of loan consummation.

A. 1
B. 2
C. 3
D. 4
Correct answer is D. - A revised Loan Estimate may not be disclosed within four business days of loan consummation, according to the new guidelines contained in Regulation Z.

21. Delivering the Closing Disclosure to the borrower is the responsibility of the
   A. creditor.
   B. MLO.
   C. mortgage broker.
   D. settlement agent.
Correct answer is A - TILA places the responsibility for the borrower’s Closing Disclosure with the creditor.

22. Delivering the Closing Disclosure to the seller is the responsibility of the
   A. creditor.
   B. MLO.
   C. mortgage broker.
   D. settlement agent.
Correct answer is D - TILA places the responsibility for the seller’s Closing Disclosure with the settlement agent.

23. With a mortgage loan that is rescindable under the Truth In Lending Act, the Closing Disclosure must be delivered to
   A. all borrowers who have the right to rescind.
   B. the borrower(s) with the primary responsibility for the mortgage loan.
   C. co-signers for the mortgage loan.
   D. the settlement agent for notarization.
Correct answer is A - All borrowers who have the right to rescind must have a revised Closing Disclosure delivered to them.

24. Adjustable rate disclosures that are required to be signed at closing need only be provided to the borrower who
   A. expresses an interest in receiving a copy.
   B. has primary responsibility for the mortgage loan.
   C. has the right to rescind.
   D. is a co-signer for the mortgage loan.
Correct answer is A - A borrower who expresses an interest in the adjustable rate disclosures may receive a copy of them initially. There is not a requirement that all borrowers receive the initial adjustable rate disclosure forms.

25. Loan consummation is the day that the
   A. borrower becomes contractually obligated on the credit transaction.
   B. borrower becomes contractually obligated to the seller to perform on the sales contract.
   C. mortgage loan funds.
   D. refinance loan documents are fully executed.
   Correct answer is A - Loan consummation is defined by TILA as the time that a consumer becomes contractually obligated on the credit transaction, but may not necessarily coincide with the settlement or closing of the entire real estate transaction.

26. A Loan Estimate that is made in good faith is determined by the closing costs quoted on the Loan Estimate and on the Closing Disclosure. For a Loan Estimate to be made in good faith, the costs on the Loan Estimate should be
   A. disclosed on a changed circumstance form.
   B. higher than what is charged on the Closing Disclosure.
   C. lower than what is charged on the Closing Disclosure.
   D. redisclosed on a revised Loan Estimate delivered to the borrower at least one business day before loan consummation.
   Correct answer is B - If a loan estimate is made in good faith, the closing costs on the estimate will be higher than what the borrower is actually charged at loan consummation and documented on the Closing Disclosure. If the costs are higher on the Closing Disclosure, then the Loan Estimate was underquoted.

27. A changed circumstance for the purpose of the Loan Estimate can be any of the following EXCEPT
   A. an event that is beyond the control of the creditor or borrower.
   B. information that was known or provided at the time of application but changed after the application, altering the interest rate of the loan.
   C. the mortgage loan originator neglected to inform the borrower of the additional cost and necessity of a review appraisal when requested.
D. new information regarding the borrower or the loan that the creditor did not rely on when providing the original Loan Estimate.

Correct answer is C - The neglected disclosure of a new fee will not be allowed as a changed circumstance if not initially disclosed within three business days of discovery.

28. A borrower completes a loan application/disclosures, but instead of locking the interest rate at the time of application, he locks the rate at a later date. The lender has _____ business days to redisclose the terms of the locked loan.
   A. There is no requirement to disclose.
   B. 1
   C. 2
   D. 3

Correct answer is D - Although the CFPB initially issued a proposed regulation for same day disclosure, they later issued guidance for a three business day timeframe to redisclose the terms of the locked loan.

29. Items on the Loan Estimate that have no tolerance restrictions for change include all of the following EXCEPT
   A. hazard insurance.
   B. periodic interest.
   C. private mortgage insurance.
   D. property taxes.

Correct answer is C - Private mortgage insurance is placed in the category of a settlement charge that the borrower is not allowed to choose and therefore, is subject to the 10% tolerance limit.

30. Charges for third-party services paid by or imposed on the consumer are grouped together and subject to a 10% cumulative tolerance. These fees can include all of the following EXCEPT the
   A. lender processing fee.
   B. location survey.
   C. owner’s title policy.
   D. recording fees.
Correct answer is A - A lender processing fee would be considered a part of Section A, Origination Charges, on Page 2 of Loan Estimate.

31. If a borrower is quoted $200 for a termite report and no termite report is required or performed, what must be done?
   
   A. The fee is charged and then credited to the borrower for payment of other settlement costs.
   
   B. The fee is deducted from the aggregate amount for the 10% tolerance calculation prior to analyzing the amount for a 10% variance.
   
   C. The fee remains as a part of the aggregate amount for the 10% tolerance calculation and is included in the analysis for a 10% variance.
   
   D. The fee reverts to the creditor issuing the Closing Disclosure.

Correct answer is B - TILA instructs the creditor to remove fees that are not required or performed for the closing prior to the analysis of the 10% tolerance calculation.

32. If the amounts paid by the consumer at closing exceed the prescribed tolerance thresholds, a credit must refund the excess to the consumer no later than

   A. at closing.
   
   B. within five (5) calendar days of loan closing.
   
   C. within 30 calendar days of closing.
   
   D. within 60 calendar days after consummation.

Correct answer is D - 12 CFR § 1026.19(f)(2)(v) allows a creditor a 60 calendar day time period to cure any tolerance violations.

33. A creditor must deliver to the consumer, or place in the mail, the revised Loan Estimate no later than __________ business day(s) after receiving information regarding a fee that qualifies as a changed circumstance.

   A. 1
   
   B. 3
   
   C. 5
   
   D. 30

Correct answer is B - When a creditor discovers a valid changed circumstance, a revised Loan Estimate must be issued to the consumer within three business days of discovery.
34. A creditor is generally required to ensure that the consumer receives the Closing Disclosure no later than ___ business day(s) before loan consummation.

A. 0  
B. 1  
C. 3  
D. 5  

Correct answer is C - Borrowers have three business days to review the Closing Disclosure prior to loan consummation.

35. The three business day waiting period requirement applies to a corrected Closing Disclosure when all of the following occur EXCEPT

A. the addition of a pre-payment penalty to the loan.  
B. changes to the loan product.  
C. changes to the loan’s APR.  
D. clerical errors made to the Closing Disclosure.  

Correct answer is D - Clerical errors do not require a revised Closing Disclosure or additional three day waiting period to the consumer.

36. The partial payment disclosure, located in the Closing Disclosure, contains all the following disclosures EXCEPT

A. the lender does not accept any partial payments.  
B. the lender may accept partial payments and apply them to the loan.  
C. the lender may hold partial payments in a separate account until a full payment is made.  
D. the lender will only accept partial payments after foreclosure proceedings have been initiated.  

Correct answer is D - The options for accepting partial payments are that the lender will or will not accept them or that partial payments will be placed in a special account until a full payment accrues, and then the full payment will be credited to the borrower’s account.

37. According to Dodd-Frank, a mortgage loan originator is defined as a natural person, who for compensation or expectation of compensation, does any of the following EXCEPT

A. participates in the origination process as an MLO.  
B. represents himself to the public that he can or will perform any of the MLO activities.  
C. takes an application.
D. works for a mortgage lender.

Correct answer is D - Dodd-Frank does not consider all employees of a mortgage lender as mortgage loan originators. If a person takes an application, holds themselves out to the public as being able to originate loans, or participates in the origination process, then they meet the definition of a mortgage originator.
Chapter 4

4.1 Knowledge Check, Page 80

Consumers are entitled to receive a free copy of their credit score from a consumer reporting agency each year.
   A. true
   B. false

Correct answer is B. False - Consumers are entitled to a free copy of their credit file each year; consumers may order and pay for a copy of their credit score from a reporting agency.

4.2 Knowledge Check, Page 80

The Fair Credit Reporting Act entitles consumers access to the same credit information that lenders use in making their credit decisions.
   A. true
   B. false

Correct answer is A. True - The FCRA establishes the rights of debtors and responsibilities of creditors involved in consumer lending activities.

4.3 Knowledge Check, Page 84

1. According to FCRA, all of the following would have a business need for access to credit reports EXCEPT (n)
   A. “buy here, pay here” automobile dealer.
   B. employer performing a background check on a potential employee.
   C. mortgage loan originator.
   D. person who wants to know their neighbor’s credit score.

Correct answer is D. - A person who is curious about a neighbor’s credit score does not have a legitimate need to access credit reports, according to FCRA.

2. The consumer reporting agency must correct or delete any data EXCEPT information that is
   A. disputed.
B. inaccurate.
C. incomplete.
D. unverifiable.

Correct answer is A. - A consumer reporting agency is required to remove any data reported that is inaccurate, incomplete, or unverifiable. The act of disputing a trade line does not require its removal, only its investigation.

4.4 Knowledge Check, Page 86

1. The primary focus of the Fair and Accurate Credit Transactions Act (FACT Act) is to ensure that consumers’ credit information is accurately maintained and recorded.
   A. true
   B. false

Correct answer is B. False - The primary purpose of the FACT Act is to protect consumers from identity theft.

2. To properly dispose of a consumer’s loan file, the FACT Act requires that paper files be burned or shredded after the loan closes.
   A. true
   B. false

Correct answer is A. True - The FACT Act requires that paper loan files be safely disposed of to protect consumer’s private information by either shredding or burning the information.

4.5 Apply Your Knowledge, Page 88

Directions: Review the following scenario, then fill-in the blanks by choosing from among the following regulations. Be prepared to present and discuss your response.
A. Fair and Accurate Credit Transactions Act (FACTA)
B. Fair Credit Reporting Act (FCRA)
C. Gramm-Leach-Bliley Act (GLB)

Which regulation is it?
Borrower Frank makes an application for a mortgage loan with ABC Mortgage Brokers. According to (1) GLB, Frank is considered a consumer. When MLO Kerry reviews the credit report, he notices an alert for an address mismatch. Kerry is required to assess the validity of the
address discrepancy to comply with (2) FACTA. On the report, Kerry notices a Chapter 7 bankruptcy that was discharged eight years ago. This credit entry remains on the report for ten years, according to (3) FCRA. Frank notices a delinquent auto loan payment that is an error. According to (4) FCRA, Frank can dispute this item with the credit bureaus and if it is found to be inaccurate, it will be corrected. Frank’s credit score is 562, and he receives an adverse action that is required by (5) FCRA. Frank also receives the credit reporting agency information that is provided according to (6) FCRA. Frank’s paper loan file is then shredded by Kerry to comply with (7) FACTA.

Correct answers:

(1) C. GLB – Classifies a borrower as either a consumer (who conducts a one-time transaction with a borrower) or a customer (who has an ongoing relationship with the borrower).

(2) A. FACTA (Section 114) – Requires a creditor to assess the validity of a borrower’s addresses when an alert is reported on the credit report.

(3) B. FCRA – Regulates the time period for a credit bureau to report certain derogatory credit items on the report.

(4) B. FCRA – Requires a credit reporting bureau to correct information found to be inaccurate or incomplete.

(5) B. FCRA – Requires that a creditor issue an adverse action notice.

(6) B. FCRA – The required adverse notice must include the contact information for the source of the creditor’s decision.

(7) A. FACTA – Requires that a paper loan file be burned or shredded after completion of the transaction to protect a consumer’s personal information.

4.6 Knowledge Check, Page 90

The Patriot Act requires lenders and banks to create and maintain programs that verify their customers’ identity.

A. true
B. false

Correct answer is A. True - The Patriot Act seeks to prevent the funding of terrorist operations; verifying the identity of customers is a basic part of that effort.
4.7 Knowledge Check, Page 91

The National Do Not Call Registry regulations require companies to update their national customer lists every 30 days.

A. true
B. false

Correct answer is B. False - A company’s federal DNC list must be updated every three months; internal customer DNC lists must be updated every 30 days.

Chapter 4 Quiz, Page 93

1. For how many months after a loan closes may a mortgage loan originator call to solicit new business from a customer whose phone number is on the National Do Not Call Registry?
   A. 3 months
   B. 6 months
   C. **18 months**
   D. No calls can be made to a number on the Registry.

Correct answer is C. - The national DNC regulations allow a mortgage loan originator, who has an established business relationship with a consumer whose name is on the national DNC list, to solicit further business for a period of 18 months.

2. Which law includes Red Flags Rules that require financial institutions and creditors to implement procedures to protect customer identity?
   A. **Fair and Accurate Credit Transaction Act**
   B. Fair Credit Reporting Act
   C. Gramm-Leach-Bliley Act (The Financial Privacy Act)
   D. Homeowners Protection Act

Correct answer is A. - The Red Flag Rules are located in Section 114 of the Fair and Accurate Credit Transaction Act.

3. The Fair Credit Reporting Act allows a consumer to request a
   A. credit score disclosure statement from a creditor.
   B. **dispute of inaccurate or incomplete information of a report.**
   C. fraud alert in the event of stolen identity.
D. freeze on a credit bureau.

Correct answer is B. - The FCRA allows the consumer to dispute inaccurate or incomplete information found in the credit report.

4. The FCRA mandates that a credit reporting bureau remove a consumer’s Chapter 7 bankruptcy record after
   A. credit has been re-established for over five years.
   B. 7 years.
   C. 10 years.
   D. dismissal of the case by a Federal Bankruptcy Court.

Correct answer is C. - The Fair Credit Reporting Act provides that derogatory information regarding a discharged bankruptcy be removed after 10 years.

5. The Fair and Accurate Credit Transaction Act regulates all of the following EXCEPT
   A. an adverse action notice to the borrower who is turned down for a loan.
   B. a credit freeze registered with a credit bureau.
   C. fraud alerts placed on a credit report.
   D. truncation of credit card numbers on a credit card receipt.

Correct answer is A. - FACTA allows borrowers to place fraud alerts or freezes on their credit and requires truncation of credit card numbers on receipts. FCRA requires a creditor to issue an adverse action for customers who are declined a mortgage loan.

6. The Red Flags Rules are also known as
   A. advertising triggering terms.
   B. Chapter 8 of Regulation X.
   C. Section 32.
   D. Section 114.

Correct answer is D. The Red Flag Rules are found in Section 114 of the Fair and Accurate Credit Transaction Act.

7. According to the GLB Act, a person who completes a single transaction with a creditor is known as a(n)
   A. applicant.
   B. creditor.
C. consumer.
D. customer.

Correct answer is C. A consumer is identified by Gramm-Leach-Bliley as a person who only closes a single transaction with a creditor and who does not have an ongoing relationship with the creditor.

8. The penalty per occurrence per day for violating the National Do Not Call regulations is
   A. $5,000.
   B. $10,000.
   C. $11,000.
   D. $16,000.

Correct answer is D. The National Do Not Call Registry regulations, administered by the FTC, set the maximum penalty for violations at $16,000 per incident.
Chapter 5

5.1 Knowledge Check, Page 100

An example of a higher priced loan is a first mortgage loan that exceeds the yield on the applicable corresponding Treasury Bill by 1.5%.

A. true
B. false

Correct answer is B. False - Specifically, TILA section 103(bb)(1)(A)(i) changes the APR benchmark from the yield on comparable Treasury securities to the “average prime offer rate” as defined in TILA section 129C (b)(2)(B), effective January 2014.

5.2 Knowledge Check, Page 103

When a seller owns a property that is to be resold during the first 90 days, a second appraisal is required for a conventional loan if the increase in price is

A. 5%.
B. 6.5%.
C. 9.99%.
D. 12.5%.

Correct answer is D. - If the sale price exceeds the seller’s acquisition price by more than 10 percent, a creditor shall not extend a next mortgage loan to a consumer to finance the acquisition of the consumer’s principal dwelling without obtaining two written appraisals prior to consummation.

5.3 Knowledge Check, Page 107

1) The MLO is required to obtain a unique identifier number from the

A. CFPB.
B. Nationwide Mortgage Licensing System & Registry (NMLS).
C. Social Security Administration.
D. state where he or she wishes to obtain a license.

Correct answer is B: An MLO is required to obtain his unique identifier number from the NMLS.
2) The MLO’s name and NMLS Number is required to appear on all of the following documents EXCEPT the
   A. appraisal.
   B. loan application.
   C. promissory note.
   D. security instrument.

Correct answer is A. The name and MLS # of the mortgage loan originator is required by the MLO Comp Rule to appear on the Loan Application, the Promissory Note, and the Security Instrument. This information is not required on the appraisal.

3) An MLO may be compensated
   A. additional basis points for closing a government-insured loan.
   B. based on the interest rate offered to the consumer.
   C. based upon the loan amount.
   D. with a bonus for steering a consumer to an affiliate for a settlement service.

Correct answer is C. An MLO may only receive compensation based on the loan amount given to the borrower and no other consideration.

5.4 Knowledge Check, Page 108

Since 2011, MLOs cannot receive compensation based on the type or terms of a loan.
   A. true
   B. false

Correct answer is A. True - This requirement, which protects the borrower’s interests, is codified under the Dodd-Frank Act and prohibits compensation based on any other term other than the loan amount.

5.5 Apply Your Knowledge, Page 109

Introduction: In this discussion activity, you will apply your knowledge of higher priced and high cost loans.

Directions: Review the following scenario. Then, answer the discussion questions. Be prepared to discuss your responses with other participants.

Description: A borrower is seeking a FHA insured loan. He will put the minimum 3.5% down
payment and pay the Up Front Mortgage Insurance fee of 1.75%. He will pay the annual mortgage insurance fee of .85% for the life of the loan. His interest rate is 5%, the APOR (as of the date the loan interest rate is locked) is 4.672%, and his APR for this loan is 6.474%.

**Discussion Questions:**

1. Is this a higher priced loan? Explain your answer.

   *The first operation is to determine if the loan is a higher priced loan. That is done by performing the following computations:*

   \[
   \text{Current APOR} \quad 4.672 \\
   + \quad 1.500 \\
   = \quad 6.172\% \quad (\text{APOR Threshold})
   \]

   The APR is greater than the APOR threshold; therefore it IS a higher priced loan. As an option, the MLO may use the FFIEC website [see http://www.ffiec.gov/ratespread/newcalc.aspx] to determine if the loan’s APR exceeds the threshold and is then a higher priced loan.

2. If this loan is a higher priced loan, what must be done?

   *If the loan meets the standards of a higher priced loan, the creditor must verify the borrower’s ability to repay the loan and an escrow/impound account must be established for a minimum of five years, according to HOEPA. The loan must meet the other terms of the regulation, such as no balloon payments, etc.*

3. Is this a high cost loan? Explain your answer.

   *A high cost loan is one where the APR exceeds the sum of the APOR + 6.5%. In this scenario, the APR is less than 11.172% (4.672\% + 6.5%).*

4. If the finance charge includes two points origination, two discount points, and 1.5 percent of the loan amount as closing costs, using the above information, is this a high cost loan if it was refinance transaction? Explain your answer.

   *The loan would be a high cost loan in this scenario because the finance charges exceed the 5% guideline:*

   \[
   \text{Closing costs required:} \quad 1.5\% \\
   \text{Discount points charged:} \quad 2.0\%
   \]
Ori
gination fee charged: 2.0%

Total finance charges 5.50%

Regardless of the loan amount, the finance charges exceed the high cost finance charge guideline of 5%. Therefore, the loan is a high cost loan.

5. If so, what must be done?

If the loan is determined to be a high cost loan, then the borrower must receive a Section 32 disclosure three business days prior to executing loan documents for the transaction. During this time, the borrowers have a 3-day right to rescind the mortgage loan. After the initial rescission period is fulfilled, then the borrower may execute documents and disclosures for the mortgage loan and will have the statutory right to rescind the mortgage loan.

Chapter 5 Quiz, Page 112

1. The Home Ownership and Equity Protection Act amends which regulation?
   A. Regulation B
   B. Regulation C
   C. Regulation X
   D. Regulation Z

Correct answer is D. - Regulation Z, known as the Truth in Lending Act, was amended by the HOEPA regulations in 1994.

2. Within three business days of the receipt of a fully completed application, a lender must provide
   A. a copy of the appraisal performed on the subject property.
   B. a copy of the credit report used in the loan decision.
   C. a list of homeownership counseling organizations.
   D. Section 32 disclosures, according to HOEPA.

Correct answer is C. - A creditor is required to provide a list of home ownership counseling agencies when the HUD Settlement Cost booklet is provided to the borrower, within three business days of receipt of a complete application.
3. A higher priced loan is one that
   A. has an APR greater than 6.5%
   B. includes finance charges greater than 5% of the loan amount.
   C. is also known as a Section 32 loan.
   D. uses the average prime offer rate as an index.

   Correct answer is D. - A higher priced loan is a loan where the annual percentage rate is measured against the current average prime offer rate.

4. The borrower’s ability to repay a mortgage loan may be based on
   A. anticipated earnings from projected overtime pay.
   B. current or expected income.
   C. the equity in the subject property.
   D. sporadic bonus income.

   Correct answer is B. - Current or expected income may be used for determining a borrower’s ability to repay the mortgage loan.

5. If a seller sells a home within three to six months after purchasing the home, a second appraisal is required if the sale price exceeds the seller’s acquisition costs by more than
   A. 5%.
   B. 10%.
   C. 20%.
   D. 50%.

   Correct answer is C. - A seller who acquired a home within three to six months of resale and is selling the home for more than 20% of the original acquisition cost must have a second property appraisal performed on the property.

6. A high cost loan is one that is defined as a mortgage loan (first lien) where the APR exceeds the average prime offer rate by
   A. 4.0%.
   B. 5.0%.
   C. 6.5%.
   D. 8.5%.

   Correct answer is C. - The transaction’s annual percentage rate (APR) exceeds the applicable average prime offer rate by more than 6.5 percentage points for most first lien mortgages.
7. Creditors must provide borrowers a copy of the appraisal used for their mortgage loan ____ day(s) before loan closing.
   A. 1  
   B. 2  
   C. 3  
   D. 5  

Correct answer is C. - A creditor shall provide to the consumer a copy of any written appraisal performed in connection with a higher priced mortgage loan no later than three business days prior to consummation of the loan.
Chapter 6

6.1 Knowledge Check, Page 113

A loan originator takes a mortgage loan application with the expectation of compensation.

A. true  
B. false  

Correct answer is A. True - The SAFE Act defines a loan originator as a natural person who takes a mortgage loan application or negotiates or offers mortgage rates or terms for compensation or in the expectation of compensation.

6.2 Apply Your Knowledge, Page 118

Match each listed MLO license-related term with the general description.

<table>
<thead>
<tr>
<th>MLO License</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Continuing Education</td>
<td>H. A. 3/1 Adjustable Rate Mortgage</td>
</tr>
<tr>
<td>2. Federal Registered MLO</td>
<td>C. B. Clerical/Administrative Duties</td>
</tr>
<tr>
<td>3. Loan Originator</td>
<td>F. C. Depository Institution</td>
</tr>
<tr>
<td>4. Loan Processor</td>
<td>B. D. HERA</td>
</tr>
<tr>
<td>5. Nontraditional</td>
<td>A. E. NMLS #</td>
</tr>
<tr>
<td>6. Prelicensing</td>
<td>G. F. Takes Application</td>
</tr>
<tr>
<td>7. SAFE Act</td>
<td>D. G. Twenty Hours of Education</td>
</tr>
<tr>
<td>8. Unique Identifier Number</td>
<td>E. H. Two Hours of Ethics Education</td>
</tr>
<tr>
<td>9. UST</td>
<td>I. I. Uniform State Test</td>
</tr>
</tbody>
</table>

Answer Key: 1-H, 2-C, 3-F, 4-B, 5-A, 6-G, 7-D, 8-E, 9-I

6.3 Knowledge Check, Page 119

If an individual fails the national SAFE MLO test, he can repeat taking the test up to three times as part of the same enrollment.

A. true
Correct answer is A. True - An MLO candidate is entitled to try passing the test three times, if he fails all three times, then the candidate must wait at least six (6) months before trying it again.

Chapter 6 Quiz, Page 120

1. According to the SAFE Act, which incident from 10 years ago would NOT automatically disqualify an applicant for a mortgage loan originator license?
   A. conviction for felony assault
   B. conviction for felony fraud
   C. conviction for felony money laundering
   D. revocation by the state of a mortgage broker’s license
   Correct answer is A. - A felony conviction from 10 years ago for any crime other than a financial crime would automatically not keep an MLO candidate from obtaining a license.

2. The SAFE Act requires state-licensed originators to have a minimum of how many hours of approved prelicensing education?
   A. 8
   B. 12
   C. 20
   D. 24
   Correct answer is C. - The prelicensing requirement for education is 20 hours for licensure.

3. An MLO applying for a state license must provide all of the following EXCEPT
   A. employment history.
   B. evidence of completion of the mandatory 8-hour education requirement.
   C. pass a background check.
   D. a personal residence and employment history.
   Correct answer is B. - For an MLO, 8 hours is the continuing education requirement after a license is granted.

4. The SAFE Act defines a loan originator as a natural person who
   A. offers or negotiates terms of a residential mortgage.
   B. processes a mortgage loan under the direction of a mortgage banker.
C. takes a residential mortgage loan application.

D. both A & C

Correct answer is D. - The SAFE Act defines an MLO as a natural person who takes a residential loan application or offers or negotiates a mortgage loan application.

5. Which of the following is NOT a required continuing education topic under the SAFE Act?
   A. ethics
   B. federal mortgage laws
   C. nontraditional mortgage loans
   D. property taxes

Correct answer is D. - The SAFE Act doesn’t designate property taxes as a required topic for MLO continuing education.
Chapter 7

7.1 Knowledge Check, Page 122

The FHA defines income limits to determine who is eligible for FHA loans.

A. true
B. false

Correct answer is B. False - Anyone who is a U.S. citizen, permanent resident, or non-permanent resident with a qualifying work Visa, and who meets the lending guidelines, can qualify for an FHA-insured loan.

7.2 Knowledge Check, Page 124

Which of the following is NOT one of FHA’s “4 Cs of Underwriting”?

A. capacity to repay
B. cash
C. credit history
D. current interest rate

Correct answer is D. - Current interest rates are not used as a basis for underwriting by the FHA; collateral, which identifies the property value, is the 4th C used by the FHA.

7.3A Apply Your Knowledge (Part 1), Page 125

Directions: Consider the following information, then determine the monthly gross income. Be prepared to present and discuss your response.

Information: Mary wants an FHA loan to buy a house. She would have these monthly expenses:

- $536.82 Principal and Interest ($100,000 at 5% for 360 months)
- $53.00 Property Taxes
- $25.00 Homeowners Insurance
- $95.83 MIP (FHA Mortgage Insurance Premium based on 96% LTV)
- +$90.00 Homeowners Association Dues
- $800.65 Total Housing Expense (PITI)

What should Mary’s required stable monthly gross income be in order to qualify for this
Dividing the total housing expense by 31%, this loan requires a stable monthly income of $2,582.74 ($800.65 ÷ .31 = $2,582.74).

7.3B Apply Your Knowledge (Part 2), Page 125

Directions: Consider the following information, then determine the monthly gross income. Be prepared to present and discuss your response.

Information: Mary wants an FHA loan to buy a house. She would have these monthly expenses:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$800.65</td>
<td>Housing Expense (from previous example)</td>
</tr>
<tr>
<td>$192.65</td>
<td>Auto Payment</td>
</tr>
<tr>
<td>+$40.00</td>
<td>Revolving Credit Account</td>
</tr>
<tr>
<td>$1,033.30</td>
<td>Total Debt</td>
</tr>
</tbody>
</table>

Based on her debt, what should Mary’s required stable monthly gross income be in order to qualify for this loan using the total debt-to-income ratio?

FHA allows a maximum total debt-to-income ratio of 43%, so $1,033.30 ÷ 0.43 = $2,403.02, the minimum monthly income needed. Remember, though, a borrower must qualify under both ratios, so $2,403.02 is actually the minimum monthly income Mary would need in order to buy this home (barring other offsetting factors).

7.4 Knowledge Check, Page 132

The Veteran’s Administration requires the lender to confirm the borrower qualifies for a loan with a VA Certificate of Eligibility before closing the loan.

A. true
B. false

Correct answer is A. True - The lender cannot process a VA-approved loan until the veteran can document his or her military service.

7.5 Knowledge Check, Page 133

What two items must accompany every application for a VA guaranteed mortgage?

A. Bonus Entitlement Letter from VA
B. Current Certificate of Eligibility
C. Current Certificate of Reasonable Value

D. DD214, NGB22/23, or General Orders

Correct answers are B & D. - The current certificate of eligibility that shows the amount of guarantee the veteran is eligible for and the DD214, NG 22/23, or General Orders showing the veteran’s status are both required at the time of application.

7.6 Apply Your Knowledge, Page 134

Directions: Consider the following information, then determine the available entitlement. Be prepared to present and discuss your response.

Information: Veteran Dave wants to buy a house for $480,000. He has his full entitlement of $104,250 available.

What is the cash down payment Dave must make to buy this house?

\[
\begin{align*}
\text{Purchase Price} & \quad \text{Guaranty Required} \\
$480,000 & \quad \times \quad .25 \\
$120,000 & \quad \text{Available Entitlement} \\
- \quad $104,250 & \quad \text{Down Payment} \\
\end{align*}
\]

If Dave wants to buy this house, he must make a cash down payment so that the guaranty amount is 25% of the loan amount.

Chapter 7 Quiz, Page 151

1. An eligible borrower applies for an FHA loan on a house with an appraised value of $100,000 and a purchase price of $96,000. What is the required minimum investment?
   A. $3,000
   B. $3,360
   C. $3,500
   D. $4,800

Correct answer is B. - The minimum down payment (3.5%) for FHA insured loans is calculated using the lower of the sale price or appraised value. $96,000 \times .035 = $3,360.

2. An upfront mortgage insurance premium is required
A. on all FHA loans.
B. only when the buyer cannot pay the required down payment in cash.
C. only when the LTV exceeds 80%.
D. only when the LTV exceeds 90%.

Correct answer is A. - The upfront mortgage insurance premium is now required on all FHA loans, regardless of the loan program or LTV.

3. To qualify for an FHA loan, a borrower should have a maximum housing expense ratio of _____ and a total debt-to-income ratio of _____.
   A. 28%; 36%.
   B. 29%; 36%.
   C. 29%; 41%.
   D. 31%; 43%.

Correct answer is D. - According to the 4155.1, FHA’s underwriting manual, the debt-to-income ratios for an FHA insured loan are 31% for the housing ratio and 43% for the total debt-to-income ratio.

4. A residual income calculation shows the
   A. amount of cash flow available for maintenance and utilities.
   B. cash flow remaining for family support.
   C. funds remaining for the proposed PITI payment.
   D. true composite debt-to-income ratio.

Correct answer is B. - When the residual is calculated, the amount of cash flow remaining for the veteran to pay for auto insurance, clothing, food, entertainment, and other debt is computed. This amount is compared with the residual table to ensure the veteran will have ample support for the items needed.

5. FHA-insured loans are funded by
   A. approved lenders.
   B. FDIC.
   C. FHA.
   D. HUD.

Correct answer is A. - FHA insured loans are funded by lenders that are approved by FHA. The loans are insured by FHA.
6. The up-front guarantee fee for a Section 502 loan is
   A. 1.0%.
   B. 2.0%.
   C. 2.75%.
   D. 3.5%.
   Correct answer is C. - As mandated by the USDA, the up-front guarantee fee is 2.75%. This amount may be paid in cash or added to the loan amount.

7. What is the maximum flat fee that a lender may charge on a VA loan?
   A. 1%
   B. 2%
   C. 3.5%
   D. There is no limit; the fee is negotiable.
   Correct answer is A. - The VA considers a 1% flat fee to be the maximum a lender can charge the veteran for origination services, including processing, document preparation fee, etc. These fees are typically charged to the seller and are not considered part of the 1% flat fee, if the seller or interested third party pays the costs.

8. Full VA entitlement can generally be restored to a veteran
   A. if any disabled veteran assumes the loan.
   B. if an eligible veteran substitutes his entitlement for the seller’s.
   C. under no circumstances.
   D. when the loan is paid down to below 50% LTV.
   Correct answer is B. - If a seller has an existing VA loan, a buyer with a sufficient amount of entitlement may assume the existing loan on its original terms, with the approval of VA or the lender. When the assumption is approved, the buyer’s eligibility is substituted for the selling veteran’s eligibility, and the seller’s entitlement used for the purchase is restored.
Fannie Mae/Freddie Mac guidelines limit loan purchase contributions by sellers or other interested parties to a percentage of the property sale price or its appraised value, whichever is lower.

A. true
B. false

Correct answer is A. True - The limits are in place to be able to determine whether the buyer can afford to make the monthly loan payments.

Directions: Consider the following scenario, then write your responses. Be prepared to present and discuss your responses.

Scenario: A borrower wants to buy a $150,000 home and is going to make a $15,000 down payment. The borrower is seeking a conventional loan, but doesn’t want to pay more than 6 1/2% interest. The lender agrees to 6 1/2% interest if the loan has three discount points and the loan origination fee is 2%.

1. What is the total amount of points (in dollars and percentage) that the lender will receive for making this loan?
   Points are based on the loan amount; in this case, $135,000 ($150,000 – $15,000 down payment). The lender is charging a total of 5 points, or 5% of the loan. Discount points total $4,050 ($135,000 x .03) and the loan origination fee is $2,700 ($135,000 x .02). The total the lender will receive in points is $6,750 ($4,050 + $2,700).

2. If the seller agrees to pay the discount points, how much will the seller net from the transaction? (Assume the seller pays no other costs.)
   The seller net is the sale price minus any seller-paid points, so the seller will net $145,950 ($150,000 – $4,050).

3. What will the borrower’s note state as the interest rate on the loan? What dollar amount will the note say was borrowed?
The loan note rate will be 6.500% since this is not a temporary buydown. The amount on the note equals the loan amount, not the sale price, and does not reflect the seller-paid points. So, it’s $135,000 ($150,000 – $15,000).

4. Can the lender sell this loan to Fannie Mae or Freddie Mac on the secondary market? Why or why not?
   Yes, the lender should be able to sell this loan to Fannie Mae/Freddie Mac on the secondary market because with a 90% LTV, it has less than the 6% seller assistance limit that the programs allow.

8.3 Apply Your Knowledge, Page 151

Directions: Consider the following information, then determine the interest rates and complete the table entries for years two through five (i.e., Borrower Interest Rate w/Cap). Be prepared to present and discuss your entries.

Information: Assume a borrower gets a 1-year ARM loan for $100,000 for 30 years. It has a 5/2/6 interest rate cap. The current index rate is 4.5%; the margin is 3%; and the discounted start rate is 4%.

<table>
<thead>
<tr>
<th>Start / Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>4.5%</td>
<td>6.5%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Fully Indexed Rate (Index + 3%)</td>
<td>7.5%</td>
<td>9.5%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Borrower Interest Rate w/Caps</td>
<td>4% (start)</td>
<td>9%</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Monthly Payment (P&amp;I only)</td>
<td>$536.82</td>
<td>$804.62</td>
<td>$665.30</td>
<td>$804.62</td>
</tr>
</tbody>
</table>

Interest Rate with Caps: Year 2=9%; Year 3=7%; Year 4=9%; Year 5=10%

8.4 Apply Your Knowledge, Page 153

Directions: Consider the following scenario, then write your responses. Be prepared to present and discuss your responses.

Scenario: A borrower received a 30-year ARM mortgage loan for $200,000. Rate caps are 3/2/6 (initial adjustment cap/periodic interest rate cap/lifetime interest rate
The start rate is 3.50% and the loan adjusts every 12 months for the life of the mortgage. The index used for this mortgage is LIBOR, which, for this exercise is 3.00% at the start of the loan, 4.45% at the end of the first year, and 4.50% at the end of the second year. The margin on the loan is 3.00%, which remains the same for the duration of the loan.

1. **What is the initial rate (start rate) the borrower will pay during the first year?**

   *The start rate or initial rate is given in the problem as 3.50%

2. **What is the interest rate the borrower will pay after the first rate adjustment?**

   (Hint: Remember to use the “stair step method” for determining the new interest rate.)

   The borrower will pay 6.50%, which is the sum of the previous rate (3.50%) + the initial adjustment cap (3.00%). The fully indexed rate is 7.45% and the borrower always receives the lower of the two calculated interest rates.

   The rate determined by applying caps, which is 6.50%:
   
   \[
   3.50\% \text{ (start rate)} + 3.00\% \text{ (maximum cap for the first year)} = 6.50\%
   \]

   The fully indexed rate, which is 7.45%:
   
   \[
   4.45\% \text{ (LIBOR index)} + 3.00\% \text{ (margin)} = 7.45\%
   \]
3. **What is the fully indexed rate after the second year?**

   The fully indexed rate after the second year is 7.50%. The fully indexed rate is the sum of the current index and the margin. The index is 4.50% and the margin remains constant at 3.00%, which equals a fully indexed rate of 7.50%.

   \[4.50\% \text{ (index rate)} + 3.00\% \text{ (margin)} = 7.50\%\]

4. **What is the maximum interest rate the borrower will pay during the 30 year term for this loan?**

   The maximum interest rate that the borrower will pay during the term of the loan is the sum of the start rate (3.50%) plus the lifetime cap (6.00%) which sets the maximum lifetime rate at 9.50%.

   \[3.50\% \text{ (start rate)} + 6.00\% \text{ (maximum loan cap)} = 9.50\%\]

5. **If the interest rate is at its maximum, what would the LIBOR index have to be to reach the maximum interest rate?**

   If the maximum interest rate is 9.50%, using the formula of \(\text{FIR} = \text{Index} + \text{Margin}\) the LIBOR index would need to reach 6.50%:

   \[9.50\% \text{ (maximum rate)} = ? \text{ (LIBOR index)} + 3.00\% \text{ (margin)}\]

   \[9.50\% \text{ (maximum rate)} - 3.00\% \text{ (margin)} = 6.50\% \text{ (LIBOR index)}\]

8.5 **Apply Your Knowledge, Page 154**

   Identify some of the advantages and disadvantages of adjustable rate mortgages and list them in the appropriate column. Consider items that may not have already been identified. Be prepared to present and discuss your lists.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lower initial interest rate and payments</td>
<td>• No interest rate guarantees</td>
</tr>
<tr>
<td>• May be easier to qualify for loan</td>
<td>• No payment guarantees</td>
</tr>
<tr>
<td>• Leverage buyer into a higher-priced home</td>
<td>• Buyer’s financial situation may change</td>
</tr>
<tr>
<td>• Payments may decrease over time</td>
<td>• Buyer may over-leverage</td>
</tr>
<tr>
<td>• May be converted to a fixed-rate loan</td>
<td>• Possibility of negative amortization</td>
</tr>
<tr>
<td>• Good in times of low inflation or for short-term ownership</td>
<td>• May have to pay a fee to convert even if you choose not to convert</td>
</tr>
</tbody>
</table>

**Note:** These are just representative, there may be others.
8.6 Knowledge Check, Page 160

The property homeowner(s) must be at least 65 years old to qualify for a reverse mortgage.

A. true
B. false

Correct answer is B. True - The guidelines call for the homeowner(s) to be at least 62 years old to be eligible for the reverse mortgage.

Chapter 8 Quiz, Page 168

1. Which statement is true about interest rate buydowns on FHA loans?
   A. Borrowers may qualify at the buydown rate.
   B. **Borrowers must qualify at the note rate.**
   C. FHA does not allow builder-paid buydowns.
   D. FHA does not allow seller-paid buydowns

Correct answer is B. - FHA will only allow a borrower who utilizes a temporary buydown to qualify at the higher note rate and payment, not the temporary rate and payment.

2. What is the adjustable number used to compute the interest rate on an ARM called?
   A. cap
   B. **index**
   C. margin
   D. prepayment

Correct answer is B. - The index is the component of an adjustable rate mortgage that is designed to adjust at pre-determined intervals to allow the lender to keep pace with the cost of money and the economy.

3. With an ARM, the index is added to the ______ to determine the ________.
   A. APR/cost of funds
   B. home value/amount borrowed
   C. **margin/interest rate charged**
   D. qualifying ratio/maximum monthly mortgage payment

Correct answer is C. - The formula for determining the adjustable rate for an ARM is: Index +
4. Negative amortization occurs when
   A. a borrower suffers payment shock.
   B. each mortgage payment is adjusted more frequently than is the interest rate.
   C. the payment made does not cover the interest due for that period.
   D. all of the above.

Correct answer is C. Negative amortization occurs when the monthly principal and interest payment is not an amount that is required to pay the interest due for the previous month. Payments that do not cover the interest charge lead to negative amortization.

5. How are subprime loans different from conforming loans?
   A. They allow for lower interest rates.
   B. They allow for more risk.
   C. They are only offered by banks.
   D. They are sold in the secondary market.

Correct answer is B. Rationale: Subprime, or below prime, mortgages allow for more risk factors than are allowed for conforming loans sold on the secondary market.

6. Which scenario best describes a land contract?
   A. a buyer makes payments to the seller in exchange for the right to occupy, use, and enjoy the property, but no deed or title transfers until a specified portion of payments have been made
   B. a buyer takes over primary liability for the loan of a seller, usually implying no change in loan terms
   C. a seller keeps the existing loan and continues to pay on it while giving the buyer another loan
   D. a seller leases the property with the provision that part of the rent payments be applied to the sale price if the tenant decides to purchase before the lease expires

Correct answer is A. A contract between a vendor (seller) and vendee (buyer) where payments are made by the buyer to the seller in exchange for the right to occupy and enjoy a property is known as a land contract.

7. The type of mortgage where a borrower receives a monthly check rather than making
scheduled payments to a lender is known as a
A. budget mortgage.
B. forward mortgage loan.
C. fully amortizing loan.
D. reverse mortgage.

Correct answer is D. - A reverse mortgage provides a borrower with either a monthly check, a line of credit, or a lump sum payment with no monthly payments required of the borrower.

8. A HECM requires an UFMIP payment of 2.5% if the senior borrower
   A. does not meet the financial assessment requirements of HUD.
   B. draws 75% of the maximum claim amount.
   C. has an LTV of 50% or less.
   D. is not quite 62 years of age.

Correct answer is B. - According to ML 2013-27, if a reverse borrower withdraws more than 60% of the maximum claim amount in the first year, the mortgage insurance fee will be 2.5%
Chapter 9

9.1 Knowledge Check, Page 172

When the initial loan amount is multiplied by the note rate, the result is known as the

A. annual interest charge.
B. monthly interest only payment.
C. monthly PMI payment.
D. total housing expense.

Correct answer is A. - When the loan amount is multiplied by the note rate, the result is the annual interest charge. It does not become the monthly charge because the number is not divided by 12, which identifies the monthly interest only payment.

9.2 Knowledge Check, Page 173

When the initial loan amount is divided by the lesser of the sale price or the current appraised value, the result is known as the

A. annual interest charge.
B. combined loan-to-value.
C. housing ratio.
D. loan-to-value.

Correct answer is D. - When dividing the loan amount by the lesser of the sale price or the appraised value, the result is the loan-to-value.

9.3 Apply Your Knowledge, Page 174

Directions: Review the following information, and then complete the calculations. Be prepared to present and discuss your results.

Borrower’s Payment: A borrower earns $15.75 per hour and works 40 hours per week. He wants to be prequalified for FHA home financing with a PITI payment of no more than his current rental payment of $1,000 per month. He has a truck payment of $250 per month and a credit card payment of $25 per month. He intends to obtain a loan from his 401K account for the 3.5% down payment. What is the maximum payment amount for which the borrower can qualify?

Calculate the borrower’s income:
$15.75 per hour x 40 x 52 = $32,760
$32,760 per year divided by 12 months = $2730 gross monthly income
x .31
$846.30
x .43
$1,173.90
– $250.00 Auto loan pmt.
– $25.00 Credit card pmt.
$ 898.90

The qualifying payment is the lesser of the two calculations. In this scenario, the housing ratio provides the lower of the two payments at $846.30 per month.

9.4 Knowledge Check, Page 175

When the PITI payment is divided by the gross monthly income, the result is known as the
A. annual debt payment ratio
B. back ratio
C. gross monthly interest only payment
D. housing ratio

Correct answer is D. - When the PITI payment is divided by the gross monthly income, the result is the housing or front debt-to-income ratio.

Chapter 9 Quiz, Page 178

1. Bob is buying a house. It was appraised at $236,000, the sales price is $228,000, and the loan amount is $216,800. In order to buydown his interest rate, Bob is willing to pay 2 points in addition to the 1 point in loan origination fees. What is the price of Bob’s discount points?
A. $4,336
B. $4,720
C. $6,840
D. $7,080

Correct answer is A. - $216,800 x .02=$4,336

2. A borrower has a stable monthly gross income of $3,200 and recurring monthly debts of $370. What is the maximum amount of money available to him for monthly housing expenses
in order to qualify for a conforming loan?

A. $782
B. $896
C. $928
D. $1,152

Correct answer is A. - The borrower’s monthly debt is $370 and gross monthly income is $3,200. Conventional/conforming qualifying guidelines allow a total housing expense ratio of 28% and a total debt-to-income ratio of 36%, based on gross monthly income. Under the first ratio, the borrower would qualify for $896 ($3,200 x .28). Under the second ratio, the borrower would qualify for $874 ($3,200 x .36 = $1,152; $1,152 – $370 = $782). The borrower must accept whichever is lower.

3. If $90,000 is the loan amount on a $100,000 home with a Fannie Mae/Freddie Mac coverage rate of 0.62%, what is the monthly PMI cost?

A. $18.75
B. $46.50
C. $90.00
D. $558.00

Correct answer is B. - $90,000 x .0062 = $558, which is the PMI annual charge. To obtain the monthly PMI cost, divide $558 by 12, which is $46.50 per month.

4. A borrower offers to purchase a home for a $120,000: His first mortgage amount is $90,000, the seller is providing a second mortgage of 15% of the sale price, and the borrower provides the balance as a cash down payment. What is the LTV? What is the CLTV?

A. 70% / 85%
B. 75% / 15%
C. 75% / 90%
D. 80% / 90%

Correct answer is C. - The LTV is 75% ($90,000 ÷ $120,000 = 75%); $90,000 is the first mortgage from the primary lender. The CLTV is 90% ($90,000 ÷ $18,000 = $108,000); $18,000 is the second mortgage from the seller.

5. A potential borrower is applying for a conventional loan to purchase a primary residence. Currently, he pays $500 in rent, $420 for an auto loan, $170 toward his VISA bill, and $300
on a student loan each month. His gross monthly income totals $4,900 and his take-home pay after taxes is $3,700. What is the maximum housing payment for which he can qualify?

A. $701  
B. $874  
C. $1,036  
D. $1,372  

Correct answer is B. - The borrower’s monthly debt is $890 (auto loan + VISA + student loan); rent does not count as debt since he will no longer pay it with the house. Conventional qualifying guidelines allow a total housing expense ratio of 28% and a total debt-to-income ratio of 36%, based on gross monthly income. Under the first ratio, the borrower would qualify for $1,372 ($4,900 x .28). Under the second ratio, the borrower would qualify for $874 ($4,900 x .36 = $1,764; $1,764 – $890 = $874). The borrower must accept whichever is lower.

6. Borrower Stu wants to get an FHA loan for a home priced at $253,500 and appraised for $257,000. The monthly PITI payment on this house would be $1,780. He has a 680 credit score, gross monthly income of $6,850, other monthly recurring debts of $850, and a $75 monthly electric bill. Stu will finance the 1.75% UFMIP into the loan amount. What is Stu’s minimum down payment for the home purchase?

A. $0  
B. $8,872.50  
C. $8,995.00  
D. $9,027.77  

Correct answer is B. - Using the lesser of the sale price or the appraised value ($253,500) and applying the required FHA down payment of 3.5%, Stu must provide $8,872.50 as a down payment ($253,500 x 3.5% = $8,872.50).
Chapter 10

10.1 Knowledge Check, Page 182
Mortgage loan originator Jack advertises refinance loans with 0 points and 3.8% APR just to get prospective borrowers in the door. Then, he tells them that such terms are not available to them because of their debt, their income, or any other such factor. In reality, Jack did not intend to place any loan on those terms.

Is Jack guilty of “bait and switch” advertising?

A. true
B. false

Correct answer is A. True - No advertisement containing an offer to sell a product should be published when the offer is not a bona fide effort to sell the advertised product. Jack baited consumers with his advertisement, which is violation of 16 CFR §238.1.

10.2 Apply Your Knowledge, Page 184

Directions: Consider the following scenarios, then write your responses. Be prepared to present and discuss your responses.

Scenario 1: MLO Jane advertises what she calls “5 for 5” mortgage loans: 5% down and 5% fixed rate interest for 30 years. A qualified borrower comes in and starts the loan process, paying for a credit report, and completing a loan application. However, Jane does not lock in that interest rate. She knows that rates are going up, so she sits on the application for an extra week, and then tells the borrower that the best she can do is 5 3/4%.

Would this be considered an example of a bait and switch tactic? Why or why not?

Yes, if Jane had never intended to close a so-called “5 for 5” loan and just wanted to get prospective borrowers in the door, her offer was not in good faith.

Scenario 2: MLO Alex advertises that he will close loans in 14 business days, even though he knows that his average close takes 47 days. His ad brings in 100 new customers, and he works extra hard to close a few of those loans in 14 days so that his advertisement remains legitimate.

Would this be considered an example of a bait and switch tactic? Why or why not?

Yes, even though Alex is closing some of the loans in the timeframe advertised, he still used deception to bring in more customers, since he never intended to achieve that
10.3 Apply Your Knowledge, Page 187

Introduction: In this discussion activity, you will review and discuss examples of possible deceptive advertising.

Directions: Determine if these examples of advertising ideas, terms, and slogans would be considered deceptive to the public. Be prepared to present and discuss your responses.

Discussion Questions:

1. “We have loans with an APR of 4.607%.” Deceptive or Not? Why?
   NOT. The advertisement of an APR only rate considers all other triggering terms in the disclosure of the APR.

2. “Interest rates from 2.00%.” Deceptive or Not? Why?
   DECEPTIVE. The ad does not give the terms of the loan, such as fixed or adjustable, the APR, the term of the loan, or the down payment required.

   DECEPTIVE. The ad slogan does not state any terms of the loan or whether the payments are based on a low adjustable teaser rate, interest only terms, or if the interest rate is in fact a low rate 30-year term loan.

4. An Internet advertisement contains a hyperlink that directs the consumer to a disclosure page with the details of the advertised loan. Deceptive or Not? Why?
   NOT. The Internet follows FTC guidelines by including an obvious and clear link to the Internet page where the disclosures for the advertised loan are displayed.

5. A licensed MLO has a “fan page” on Facebook or LinkedIn page, but does not display his NMLS unique identifier number or his employing broker information on the fan page. On this page, he describes various loan programs and a range of interest rates available for them. Deceptive or Not? Why?
   DECEPTIVE. The MLO must include the NMLS unique identifier number on all advertising for mortgage services, such as a Facebook fan page. Omitting the information deceives the public about the MLO’s status with the NMLS.
10.4 Knowledge Check, Page 190

1. A lender may decline to make a mortgage loan in a particular neighborhood if the,
   A. area is largely a commercial district.
   B. foreclosure rate in the area is higher than 50%.
   C. property is located in a declining market area and no protected class is singled out.
   D. racial demographics of the neighborhood indicate a high percentage of minority borrowers.

   Correct answer is C. - Lenders may deny loans in neighborhoods where property values are declining, but it must be based on objective criteria regarding the condition and value of the property or area, not discriminatory characteristics of the borrower.

2. The Fair Housing Act prohibits discrimination against all of the following EXCEPT,
   A. Age.
   B. familial status.
   C. religion.
   D. sex.

   Correct answer is A. - The Equal Credit Opportunity Act named Age as a protected class. All other choices are protected by the Fair Housing Act.

10.5 Apply Your Knowledge, Page 197

Match each listed protected class/condition with the regulation(s) that implements and regulates it. Some protected classes/conditions may match with more than one regulation.

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Protected Class or Condition</th>
<th>Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ECOA</td>
<td>Age</td>
<td>1</td>
</tr>
<tr>
<td>2. Civil Rights Act of 1866</td>
<td>Color</td>
<td>1, 3</td>
</tr>
<tr>
<td>3. Fair Housing Act</td>
<td>Disability</td>
<td>3</td>
</tr>
<tr>
<td>4. Open Access</td>
<td>Familial status</td>
<td>3</td>
</tr>
<tr>
<td>5. None</td>
<td>Income from public assistance</td>
<td>1</td>
</tr>
<tr>
<td>6. All</td>
<td>LGBT</td>
<td>4</td>
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</tbody>
</table>
### Regulation

<table>
<thead>
<tr>
<th>Protected Class or Condition</th>
<th>Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marital status</td>
<td>1</td>
</tr>
<tr>
<td>Military status</td>
<td>5</td>
</tr>
<tr>
<td>National Origin/Ethnicity</td>
<td>6</td>
</tr>
<tr>
<td>Race</td>
<td>6</td>
</tr>
<tr>
<td>Religion</td>
<td>1, 3</td>
</tr>
<tr>
<td>Separate credit reports</td>
<td>1</td>
</tr>
<tr>
<td>Sex</td>
<td>1, 3</td>
</tr>
</tbody>
</table>

### 10.6 Apply Your Knowledge, Page 199

**Directions:** Consider the following scenarios, and then write your responses. Be prepared to present and discuss your responses.

**Scenario:** Mortgage broker Lou has been extremely busy lately. To add to his hectic situation, one of his employees just quit. Since Lou is too busy to answer the phone, he sets aside time at the end of each day to check the messages on his voicemail, responding only to calls from those who sound like they have the best chance to get approved. He manages his time in the office similarly, asking his secretary to screen out potential borrowers who receive public assistance, since they will be wasting their time and his by applying for a mortgage.

**Could Lou be violating laws against illegal discrimination or is he simply practicing good time management?**

*If Lou is using voice mail to screen prospects and doesn’t reply to members of “protected classes” based on their voice, accent, or dialect, this would certainly be an illegal discriminatory practice. Whenever a definite pattern of unequal or biased treatment in the way a licensee answers the telephone or responds to voicemail is found and documented, a formalized discrimination complaint may be warranted. Such response patterns, called linguistic profiling, may include actions like seldom answering or responding to calls that are assumed to be from “protected class” members or otherwise discouraging those prospects. Moreover, if Lou is discouraging potential borrowers who receive some sort of public assistance from applying for a loan, he is also in violation of the Equal Credit Opportunity Act.*
10.7 Apply Your Knowledge, Page 201

**Directions:** Consider the following scenarios, and then write your responses. Be prepared to present and discuss your responses.

**Scenario:** XYZ Mortgage encourages borrowers who receive federally-related mortgage loans from them to employ attorney Bob to perform title searches and related settlement services in connection with their transaction. XYZ and Bob have an understanding that in return for the referral of this business, Bob provides legal services to XYZ’s officers or employees at abnormally low rates or for no charge.

Since the borrower is not required to use the attorney, is anyone in violation of RESPA?

*Both the attorney and the lender are in violation of RESPA since they are rendering something of value (free services) in exchange for the referral.*

10.8 Knowledge Check, Page 206

1. Illegal property flipping could involve all of the following EXCEPT the seller
   A. obtaining a higher than market appraised value.
   B. purchasing the home at below market price.
   C. remodeling the home only so it looks good to prospective buyers.
   D. selling the property at market value.

Correct answer is D. - *When a seller places a property on the resale market at a higher than market price, there may be an indication of illegal flipping, especially if the home was purchased at a below market value and only cosmetic repairs were made.*

2. The FHA will insure a flipped home under all of the following conditions EXCEPT,
   A. **the buyer must pay the lender for the second appraisal.**
   B. it requires a second appraisal.
   C. the seller must be the owner of record.
   D. the transaction must be an “arm’s length transaction”.

Correct answer is A. - *Under the rules defined in the Federal Register on November 29, 2012 (Vol. 77, No. 230), “The mortgagee may not charge the cost of the second appraisal to the*
homebuyer. If the mortgagee has ordered a second appraisal to document the increase in value, the mortgagee must not use this appraisal for case processing and must not enter it into FHA Connection.”

3. Identity theft consists of all of the following EXCEPT,
   A. altering the bank statement of another person to acquire access to the account.
   B. **co-signing an auto loan for a relative.**
   C. using another’s credit card without permission to purchase a flat screen television.
   D. using a deceased person’s Social Security number for personal gain.

Correct answer is **B. - Co-signing an auto loan for a relative does not include identity theft of another person’s identity.**

10.9 Apply Your Knowledge, Page 209

**Directions:** Consider the following scenarios, and then write your responses. Be prepared to present and discuss your responses.

**Scenario 1:** Young couple June and Bud really wanted to buy a home, but their debt ratio was too high and they didn’t have much for a down payment. June’s dad, Jack, decided to help them by applying for a FHA loan himself, with the understanding that June and Bud would make the mortgage payments. Within a year of moving in, they were well behind in their monthly payments, and the lender called Jack. Jack said he had no intention of making the payments, so the lender started foreclosure procedures, and June and Bud moved into Jack’s basement.

**What are the fraud scheme(s) or legal violations for which Jack is potentially at risk?**

Jack is technically a straw buyer in this situation, since he used his personal information to apply for a loan on a property where he did not intend to live and for which he did not intend to make mortgage payments. Although he may have had pure intentions, since he applied for the loan, Jack was contractually obligated to ensure that the monthly payments were made, whether he lived in the house or not. Additionally, Jack could possibly even be criminally liable for making a fraudulent statement (that he would live in the house, a requirement of an FHA loan) on a matter related to a transaction with a federal agency. At the very least, he’s got a stain on his credit report, and he no longer has his basement to himself!
**Scenario 2:** MLO Stu is working with Emily, who is planning on buying her cousin Doug’s house. Emily is putting 10% down and Doug is willing to hold a 10% purchase money mortgage so that Emily can avoid paying private mortgage insurance. As he’s consulting with Doug and Emily to put the deal together, Doug asks Stu if he can just tear the mortgage up after closing, since he doesn’t really expect Emily to pay him back.

**What are the fraud scheme(s) or legal violations for which Stu is potentially at risk?**

Doug could be on the verge of perpetrating a fraud scheme called a disappearing second. The lender thinks it has an 80% LTV loan, for example, when it may actually be 90% LTV. Stu should be aware that if he goes along with facilitating this deal, he could be guilty of a material omission if he does not inform the lender of seller Doug’s plans. Another issue is the fact that the buyer and seller are related. Certainly, there is no law against someone selling his property to a cousin, even at a discounted price. However, mortgage fraud scams often involve family members. So, in these instances, full disclosure is imperative. Purchase contracts between family members should specifically state their relationships so it does not appear intentionally hidden. Stu probably needs to get out of this transaction.

**Scenario 3:** Patrick is behind on his mortgage payments and has been threatened with foreclosure. He has his house on the market, and a few people are showing interest in purchasing the property. Patrick contacts his lender and asks whether or not they would consider agreeing to a short sale. Patrick has a number of offers, but does not submit the highest offer to the lender, instead, convincing his friend Joe to purchase the property. The lender agrees to the sale, and once the lien is released, Joe sells the property at market value to the other prospective buyer, and he and Patrick split the $30,000 profit.

**What are the fraud scheme(s) or legal violations for which Patrick is potentially at risk?**

This is an example of a short sale fraud, and also a flipping scheme. You could even reasonably say that Joe was a straw buyer, since he never intended to make payments on the mortgage loan. In order for the short sale to go through, it’s also very likely that Joe and Patrick did not reveal their relationship. Short sales that involve relatives and friends are a large red flag. As the number of foreclosures rise, it’s likely that the related fraud schemes will continue to rise as well.
10.10 Apply Your Knowledge, Page 214

**Directions:** Consider the following scenarios and determine if they are examples of predatory lending, then write your responses. Be prepared to present and discuss your responses.

**Scenario 1:** Allen faces possible foreclosure, and contacts a mortgage lender whose ad promises to save his home. At closing, Allen sees that the lender changed the terms of the loan that they had agreed to, but he felt he had no choice but to go ahead with the loan or lose the house.

*This is an obvious case of predatory lending. The consumer was under duress in this situation, and the lender took advantage of it by changing the loan terms. Furthermore, unless the lender’s changes were below the tolerances that require redisclosure of terms, the lender is in violation of the Truth in Lending Act that requires a waiting period of three business days after redisclosure.*

**Scenario 2:** Bill takes an application for a cash-out loan from a woman on a fixed income so that she can pay her real estate taxes. Bill does not advise her to make sure the new loan collects for real estate taxes, hoping in a few years she will need to get a new loan for the same reason.

*Making loans with a meager tangible benefit that does not resolve the borrower’s problem but creates repeat business would be considered predatory lending. More specifically, this is an example of loan flipping, which is a type of equity skimming.*

**Scenario 3:** Kara has some credit issues and is trying to bounce back from a recent bankruptcy. Still, she is interested in buying a home. She finds a mortgage broker who can secure a loan for her, but only if she will pay 20% down and consent to an interest rate that is higher than that offered to consumers with perfect credit.

*Borrowers with less than perfect credit may have to pay higher rates in order to secure a loan. That alone would not necessarily be considered predatory. It does depend on the actual terms of the loan, so more information would be needed to make a definitive call on this one.*

**Scenario 4:** Pamela has applied for a loan with XYZ Mortgage Company. The mortgage loan originator tells her that since she is a single woman, she can only be approved for the loan if she takes out a credit insurance policy to cover the mortgage in the event of her death. The insurance policy requires a significant one-time fee at closing.

*Legitimate lenders do not require credit insurance, and in fact, many states forbid it since*
the loan balance would be paid off when the property was sold out of her estate. Therefore, this could be an example of predatory lending. (This might also be an example of illegal discrimination if such credit insurance is not required of single men.)

10.11 Apply Your Knowledge, Page 215

Directions: Consider the following scenario and decide how you would handle it, then write your responses. Be prepared to present and discuss your responses.

Scenario, Part 1: Velma, a 59-year-old minority woman who works as a teacher, contacts you about getting a loan to purchase a condominium. As you’re chatting, she indicates that she’s hoping to retire from teaching in three years. You take her financial and personal information and see that you should be able to get her the amount she needs to purchase the home, and now you need to discuss terms. You share some loan options with her, and she insists that she’s only interested in an adjustable rate mortgage, since she wants the lower monthly payments to start and she’s convinced the interest rates will stay low or go down even further.

What should you share with Velma about an ARM loan given her situation? Are you obligated to help her apply for the loan she wants?

You need to be very clear that Velma understands all conditions and terms associated with an adjustable rate mortgage. She needs to understand that the interest rate she will pay when adjusted according to the terms in the note will be set based off a standard index over which neither she nor her lender has any control, and it could be lower, but it could also be higher. You are not required to take her loan application, as long as your refusal is not based on Velma’s membership in a protected class (race, color, religion, nationality, sex, disability, familial status, source of income). However, you might have a hard time proving that.

Scenario, Part 2: Suppose you decide that you will not submit an application for an ARM due to Velma’s intention to retire in three years, about the time the monthly payments on the loan could jump beyond her ability to pay on a fixed income. You don’t want to seem as though you’re pushing through an inappropriate loan. Velma is very unhappy and accuses you of refusing to help her because she’s a woman and a minority.

It seems as though your choice is between risking accusations of discrimination or
accusations of predatory lending. Now what do you do?

*If you submit the loan application, you should take extra special care to confirm that you have made all required disclosures and that she acknowledges the receipt of them.*

Chapter 10 Quiz, Page 218

1. The Civil Rights Act of 1866 prohibits what type of discrimination in property transactions?
   - A. race
   - B. religion
   - C. sex
   - D. all of the above
   
   Correct answer is A. *The Civil Rights Act of 1866 prohibited discrimination in the sale or lease of residential or commercial property based on race or ancestry.*

2. The federal Fair Housing Act prohibits discrimination based on race, color, religion, sex, and
   - A. age, disability/handicap, familial status, or national origin.
   - B. disability/handicap, familial status, marital status, or national origin.
   - C. disability/handicap, familial status, or national origin.
   - D. disability, national origin, or sexual orientation.
   
   Correct answer is C. *The Fair Housing Act of 1968 added the protected classes of disability/handicap and familial status to the list of protected classes established by the Civil Rights Act of 1866.*

3. Which law requires lenders to document how they are serving the lending needs within the communities in which they do business?
   - A. Equal Credit Opportunity Act
   - B. Fair Credit Reporting Act
   - C. Fair Housing Act
   - D. **Home Mortgage Disclosure Act**
   
   Correct answer is D. *The Home Mortgage Disclosure Act (Regulation C) requires creditors to disclose the race, ethnicity, and gender of the applicant in order to monitor a lender’s compliance with the Fair Housing Act and the ECOA.*
4. The HUD Rule on Equal Access to Housing states that a creditor is prohibited from denying a borrower credit because of
   A. age.
   B. family status.
   C. race.
   D. sexual identity.
   
   Correct answer is D. - As outlined in the press release from HUD on January 2, 2013, the Equal Access to Housing Rule requires that lenders do not discriminate on a credit decision of a borrower due to their sexual orientation or sexual preference.

5. Which Act specifically prohibits redlining?
   A. Civil Rights Act of 1866
   B. Equal Credit Opportunity Act
   C. Fair Housing Act
   D. Home Mortgage Disclosure Act
   
   Correct answer is C. - The Fair Housing Act prohibits redlining, blockbusting and steering in any real estate or mortgage credit transaction.

6. As mortgage loan originator, Sam puts together an ad to attract new customers, what law should he be most concerned about?
   A. FACT Act
   B. GLBA
   C. RESPA
   D. TILA
   
   Correct answer is D. - The Truth In Lending Act (Regulation Z) is the federal regulation that has the primary responsibility of overseeing advertising.

7. Mortgage fraud can be committed by
   A. any party to a mortgage loan.
   B. appraisers only.
   C. borrowers only.
   D. lenders and brokers only.
   
   Correct answer is A. - Mortgage fraud can be committed by any party to a mortgage or real
estate transaction, including appraisers, borrowers, lenders, brokers, and other settlement service providers.

8. Which law prohibits kickbacks?
   A. Fair Credit Reporting Act
   B. Gramm-Leach-Bliley Act
   C. Regulation Z
   D. RESPA
   Correct answer is D. - Chapter 8 of the Real Estate and Settlement Procedures Act prohibits the payment or receipt of anything of value (kickbacks) in exchange for referrals.

9. Predatory lending involves
   A. forcing the borrower to refinance a loan with inferior terms.
   B. misrepresenting the loan terms by the lender.
   C. requiring excessively high fees, such as for credit life insurance.
   D. all of the above
   Correct answer is D. - Predatory lending involves placing the borrower in a mortgage loan with inferior terms, misrepresenting the loan terms to the borrower by the lender, or collecting high fees such as for origination or processing.

10. Which situation is LEAST likely to be an example of predatory lending?
    A. ABC Mortgage Co. offers a subprime loan to Mark, who is coming out of bankruptcy.
    B. Dave shows up at closing and finds that the lender has changed the terms of the loan.
    C. Ellie was 12 days late paying her mortgage, and the lender raised the interest rate 1/4%.
    D. Frank paid off his mortgage loan early with lottery winnings and the lender charged a $12,000 prepayment penalty.
    Correct answer is A. - Offering a higher interest rate or a higher down payment to someone in a mortgage transaction who has completed bankruptcy proceedings would not be predatory lending, as long as the borrower did not qualify for a better loan due to credit or income factors.

11. Which situation does NOT involve a straw buyer?
    A. Ann revises her pay stubs so she can qualify for a loan to buy her dream house.
B. Bob uses his twin brother’s Social Security number and credit information to apply for a loan.

C. Dave agrees to secure a loan under his name, even though only his sister with bad credit will live in the house.

D. Tina tells Rob, who is facing foreclosure, that if he deeds the property to her, she will refinance on good terms and let him stay in the house.

Correct answer is A. - A straw buyer involves a third party who allows their name and identity to be used for the purpose of purchasing or refinancing a property. In this case, Ann acts alone, revising her paystubs, and committing fraud for property.

12. Cindy’s customer purposely does not tell her that he just co-signed his nephew’s auto loan. The credit report shows neither that loan nor a credit inquiry, and so that debt is not considered when the lender preapproves him for a larger mortgage than he really should have. Do you think Cindy did anything wrong?

A. No, she can’t be held responsible if a client withholds information that does not show on his credit report.

B. Yes, she colluded with the customer to withhold material information.

C. Yes, she committed actual fraud by approving a purposely false application.

D. Yes, she committed constructive fraud by not confirming the customer’s debts.

Correct answer is A. - If Cindy is unaware of the credit entry or the terms of the new loan because her client did not disclose them to her, she is not guilty of any omission and cannot be held responsible for the omissions of her borrower.

13. Which of the following is NOT an indicator of predatory lending?

A. charging excessive prepayment penalties

B. falsifying loan documents

C. increasing interest charges on late loan payments

D. requiring mortgage insurance

Correct answer is D. - Mortgage insurance is required on all first lien conventional mortgage loans and certain government-insured loans. If this requirement is made of all borrowers in this category, no predatory lending occurs.

14. If an ad mentions the interest rate on a specific loan product, that interest rate must be

A. available for at least 10 business days.
B. given to every applicant.

C. locked in without a lock-in fee.

D. **made available to a reasonable number of qualified applicants.**

*Correct answer is D.* An advertised interest rate is not required to be available for a certain time period or to every applicant or payment of a lock in fee. The interest rate must be made available to qualified applicants who respond to the advertisement in a timely manner.
Chapter 11

11.1 Knowledge Check, Page 224

1. A mortgage servicer is required to respond to a payoff request within five (5) days.
   A. true
   B. false
Correct answer is B. False - A mortgage servicer must respond to a payoff request within seven (7) business days of receipt of the request.

2. A mortgage servicer may NOT contact a homeowner who misses a payment for 45 days from the date of the missed payment.
   A. true
   B. false
Correct answer is B. False - Rules were implemented regarding home foreclosures and requests for modifications as part of the amendment to Regulation X. A mortgage servicer is required to try to establish contact with the borrower no later than 36 days after a missed mortgage payment.

11.2 Apply Your Knowledge, Page 225

Directions: Consider the information and questions about the Steve Sower Homes, then write your responses. Be prepared to present and discuss your responses.

Introduction: A “kickback” is not often as plain as an MLO service provider receiving cash or giving a gift card in exchange for a referral. As you can see from the case regarding Steve Sower Homes, creativity in paying a kickback was a large part of the civil case and allegations by CFPB.

1. Steve Sower was alleged to have received illegal fees in exchange for
   Steve Sower Homes was alleged to have accepted fees in exchange for referring new homebuyers to an entity created by them and a bank/mortgage lender.

2. What was created by the homebuilder and the financial institutions?
   A sham entity that fronted as a mortgage company to service the builder referrals. The work on the mortgage loans was actually performed solely by the bank or mortgage
3. A service agreement between a builder and a mortgage company or a real estate company and a mortgage company, if not legitimate, violates what regulation?

*Giving or receiving anything of value in exchange for referrals of business is a violation of Section 8 of RESPA. The key test of violation is giving/receiving a kickback or fees for no work performance.*

11.3 Knowledge Check, Page 226

The MARS Rule requires financial institutions to disclose information to prevent consumers from receiving misleading information that would help them make informed decisions.

A. true  
B. false

*Correct answer is A. - The Mortgage Assistance Relief Service (MARS) Rule requires financial institutions to disclose information that helps consumers make sound decisions when faced with foreclosure or similar conditions.*

11.4 Knowledge Check, Page 229

The BSA requires financial institutions to maintain specified financial records and report financial transactions larger than $25,000.

A. true  
B. false

*Correct answer is B. - The BSA requires financial institutions to maintain certain financial records, but report financial transactions greater than $10,000.*

11.5 Knowledge Check, Page 230

The Patriot Act and the Financial Industry Regulatory Authority (FINRA) adopted regulations that enforce anti-money laundering requirements affecting financial institutions and brokerage firms in the United States.

A. true  
B. false
Correct answer is A. - Both entities established anti-money laundering regulations to protect financial institutions and U.S. interests from illegal activities.

Chapter 11 Quiz, Page 232

1. Mortgage servicers must do all of the following EXCEPT
   A. credit mortgage payments promptly when received.
   B. provide a monthly billing statement with specific information.
   C. wait 120 days before taking legal action in the event of default.
   **D. waive late payment penalty fees when requested by the borrower.**
   Correct answer is D. - A mortgage servicer is not required to waive a late payment penalty fee upon borrower request.

2. Force-placed insurance is
   A. coverage for the borrower’s furnishings when purchased.
   B. full coverage insurance purchased at closing by the buyer.
   C. insurance to pay the lender for a loss in the event of default.
   **D. purchased by lender when the borrower’s insurance lapses.**
   Correct answer is D. - Force-placed insurance is purchased by the mortgage servicer when the borrower’s insurance lapses.

3. If a borrower misses a mortgage payment and applies to the servicer for assistance or modification, the servicer must wait _____ days before taking legal action.
   A. 30
   B. 45
   C. **90**
   D. 120
   Correct answer is C. - If a borrower submits an application for assistance, the borrower may seek an independent review of the lender’s workout decision. The servicer may not commence any action during this timeframe.

4. Section 8 of the Real Estate Settlement Procedures Act prohibits
   A. accepting a fee before a trial modification is offered.
   B. false advertising.
C. placing force-placed insurance on a secured property.

D. **unearned fees.**

*Correct answer is D.* - Section 8 of RESPA addresses the payment of kickbacks, fee-splitting, and receiving unearned fees.

5. The Mortgage Assistance Relief Services regulation applies to
   A. down payment assistance programs.
   
   **B. loan modification requests.**
   
   C. originating a new loan for the borrower.
   
   D. providing services for potential homebuyers in obtaining a new mortgage.

*Correct answer is B.* - MARS provides regulations for the mortgage modification services of a mortgage originator or lender.

6. A customer, according to the FTC, is an individual who
   A. applies for a mortgage loan but does not consummate the mortgage.
   
   B. calls and inquires about interest rates offered by your firm.
   
   **C. has an on-going relationship with a financial institution.**
   
   D. obtains a service or product from a financial institution.

*Correct answer is C.* - *A customer is a person who has an ongoing relationship with a financial institution.*

7. BSA/AML regulations are implemented to
   A. facilitate the opening of a checking or savings account.
   
   B. license and regulate mortgage loan originators.
   
   C. oversee credit reporting acts.
   
   **D. prevent money laundering.**

*Correct answer is D.* - The Bank Secrecy Act/Anti-Money Laundering legislation regulates money laundering and record retention.
Chapter 12

12.1 Knowledge Check, Page 234

The client is the final authority on how and with whom to apply for a loan.

A. true
B. false

Correct answer is A. True - Since the loan and its conditions become the client’s legal and financial commitment, it is her decision to make about applying for a loan.

12.2 Apply Your Knowledge, Page 238

Prioritize the following events as steps of a mortgage loan sequence. Indicating the first event with a #1, the second event with a #2, and so on.

<table>
<thead>
<tr>
<th>Event</th>
<th>Step</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyze application information</td>
<td>5</td>
</tr>
<tr>
<td>Appraise the property</td>
<td>4</td>
</tr>
<tr>
<td>Complete an application</td>
<td>2</td>
</tr>
<tr>
<td>Consult with MLO</td>
<td>1</td>
</tr>
<tr>
<td>Disburse funding</td>
<td>7</td>
</tr>
<tr>
<td>Process an application</td>
<td>3</td>
</tr>
<tr>
<td>Record legal documents</td>
<td>8</td>
</tr>
<tr>
<td>Loan settlement</td>
<td>6</td>
</tr>
</tbody>
</table>

Answer Key: 1-Consult, 2-Complete, 3-Process, 4-Appraise, 5-Analyze, 6-Settlement, 7-Funding, 8-Recording

12.3 Knowledge Check, Page 244

1. A note is a borrower’s promise to repay.

A. true
B. false

Correct answer is A. True - A note is the document that gives notice of evidence of a debt. While the note is not required to be a matter of public record, it is a document that states the existence
of a debt, the amount, etc.

2. The note should be signed by the payee.
   A. true
   B. false

   Correct answer is B. False - The payee is the person or institution lending the money. The maker is also known as the payor, the person who makes the promise to repay the funds by signing a promissory note.

12.4 Apply Your Knowledge, Page 246

Match each listed mortgage term on the right with the appropriate term on the left.

<table>
<thead>
<tr>
<th>Mortgage Terms</th>
<th>Match</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Balloon Note</td>
<td>A. Additional payment at end of term</td>
</tr>
<tr>
<td>2. Beneficiary</td>
<td>B. Benefits from Deed of Trust</td>
</tr>
<tr>
<td>3. Fully Amortizing</td>
<td>C. Borrower (A)</td>
</tr>
<tr>
<td>4. Hypothecate</td>
<td>D. Court Decision</td>
</tr>
<tr>
<td>5. Judicial</td>
<td>E. Evidence of Debt</td>
</tr>
<tr>
<td>6. Non Judicial</td>
<td>F. Holds Title</td>
</tr>
<tr>
<td>7. Note</td>
<td>G. Interest Only</td>
</tr>
<tr>
<td>8. Security Instrument</td>
<td>H. Pledge as Security</td>
</tr>
<tr>
<td>9. Straight Note</td>
<td>I. Protects Lender</td>
</tr>
<tr>
<td>10. Trustee</td>
<td>J. Trustee’s Sale</td>
</tr>
<tr>
<td>11. Trustor</td>
<td>K. Zero Balance Due at End of Term</td>
</tr>
</tbody>
</table>

Answer Key: 1-A, 2-B, 3-K, 4-H, 5-D, 6-J, 7-E, 8-I, 9-G, 10-F, 11-C

12.5 Knowledge Check, Page 247

A subordination clause is used to place a superior lien in a junior lien position.
   A. true
   B. false

   Correct answer is A. True - An agreement or clause in a security instrument that keeps a lien in a subordinate or junior position is called a subordination clause.
Chapter 12 Quiz, Page 251

1. The steps in the loan process include all of the following EXCEPT
   A. analyzing the loan request, including the borrower and the property.
   B. consulting with an MLO.
   C. **servicing the mortgage loan.**
   D. verifying the information provided by the borrower.
   
   *Correct answer is C. - The servicing of a mortgage loan is done after the loan process is complete.*

2. An application is considered a “complete application” when a lender has the property address, borrower’s name, Social Security number, loan amount, and
   A. an appraisal and preliminary title report.
   B. **estimated value of the property and borrower’s gross monthly income.**
   C. housing references and childcare expenses.
   D. sufficient residual income to meet guidelines.
   
   *Correct answer is B. - A complete application includes an estimate of property value and the gross income of the borrower, in addition to the property address, borrower’s name, Social Security number, and loan amount.*

3. The independent verification of borrower information is known as
   A. analyzing the loan file.
   B. completing an application.
   C. consulting with an MLO.
   D. **processing the loan application.**
   
   *Correct answer is D. - One of the functions of processing the mortgage loan is the independent verification of the borrower’s information.*

4. The purpose of automated underwriting is to
   A. decline more borrowers.
   B. provide a valuation of the property until an appraisal is received.
   C. **reduce the cost of examining a loan application.**
   D. season funds in the borrower’s accounts.
Correct answer is C. - Automated underwriting is designed to provide timely loan approvals and to reduce the costs of underwriting mortgage loans.

5. A promissory note calling only for payment of interest during its term is a(n)
   A. amortizing note.
   B. installment note.
   C. negotiated note.
   D. **straight note**.
Correct answer is D. - A straight note is a note where interest only payments are made for a specified period of time and a balloon payment is required at the end of the term to retire the note.

6. A clause that permits the lender to call the outstanding balance due and payable should the property be sold by the borrower is a(n)
   A. acceleration clause.
   B. **alienation clause**.
   C. balloon payment clause.
   D. exculpatory clause.
Correct answer is B. - The alienation clause (also called the “due on sale” clause) states that in the event an entire or partial interest is transferred by a borrower, the lender may call the entire balance of the loan due.

7. Which document accompanies the mortgage?
   A. abstract of title
   B. contract of sale
   C. deed
   D. **promissory note**
Correct answer is D. - The promissory note provides the evidence of debt and the mortgage provides the creditor security for the note.

8. To foreclose a mortgage, the creditor
   A. files an attachment in the amount of the debt.
   B. **files a court action**.
C. notifies the debtor of the default, waits ten days, publishes a notice of default in the paper, then claims a forfeiture.

D. notifies the trustee of default.

Correct answer is B. - A mortgage refers to a security document that requires judicial foreclosure. To begin the judicial foreclosure process, a lender must file an action in court.

9. Which term describes the process by which a borrower pledges property as security for a loan without giving up possession of it?
   A. defeasance
   B. hypothecation
   C. redemption
   D. subordination

Correct answer is B. - Hypothecation is the pledging of security for a note or loan without giving up possession or use of the property.
Chapter 13

13.1 Knowledge Check, Page 256

1. A conforming loan is a loan that can be sold in the secondary market to FNMA or FHLMC.
   A. true
   B. false
   
   Correct answer is A. True - A conforming loan, a loan that conforms to the standards of FNMA or FHLMC, can be sold on the secondary market.

2. A self-liquidating loan requires a balloon payment be made at the end of the loan term.
   A. true
   B. false
   
   Correct answer is B. False - A self-liquidating loan is one where the borrower’s monthly payments reduce the principal balance of the loan over the term of the loan.

13.2 Apply Your Knowledge, Page 257

Directions: Consider the following scenario, then write your responses. Be prepared to present and discuss your responses.

Scenario: Bill wants to buy a house that is selling for $160,000, and the lender has approved him for an 80% conventional loan.

1. How much can Bill borrow?
   Bill can borrow $128,000 for an 80% conventional loan.

2. What would be the required down payment?
   Bill needs to make a 20% down payment of $32,000.

3. If the house appraises for $150,000, how much can Bill borrow?
   Bill can borrow only $120,000 (80%) if the house is appraised at $150,000.

4. What other options does he have?
   Bill could offer the seller the appraised value of $150,000 or he needs to come up with an additional $8,000 as part of his down payment.
13.3 Apply Your, Page 260

**Directions:** Consider the following scenario, then write your responses. Be prepared to present and discuss your responses.

**Scenario:** If the sale price of a home is $100,000, on a 90% LTV 30-year fixed mortgage, calculate the PMI using the sample rate card. Use the Fannie Mae/Freddie Mac required 25% coverage, at a rate of 0.62%.

1. **What is the loan amount?**
   $90,000 (90% LTV)

2. **What is the fee due at closing?**
   $558 (0.0062 rate card factor x $90,000)

3. **How much will be added to the borrower’s monthly mortgage payment?**
   $46.50 ($558.00 ÷ 12 = $46.50)

13.4 Apply Your Knowledge, Page 262

**Directions:** Consider the following scenario about secondary financing, then answer the questions. Be prepared to present and discuss your responses.

**Scenario:** Review the example below of secondary financing for a $120,000 home:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$90,000</td>
<td>75%</td>
<td>First Mortgage (primary lender)</td>
</tr>
<tr>
<td>$18,000</td>
<td>15%</td>
<td>Second Mortgage (from seller)</td>
</tr>
<tr>
<td>+ $12,000</td>
<td>10%</td>
<td>Down Payment (from borrower)</td>
</tr>
<tr>
<td>$120,000</td>
<td>100%</td>
<td>Total Sales Price</td>
</tr>
</tbody>
</table>

1. **What is the loan-to-value (LTV)?**
   75%. LTV is the first mortgage loan amount divided by the lesser of the sale price or appraisal.
2. **What is the combined loan-to-value (CLTV)?**

   90%. CLTV is the sum of all mortgage amounts divided by the lesser of the sale price or appraisal.

**Chapter 13 Quiz, Page 264**

1. A loan that is repaid with periodic payments of both principal and interest so that the entire loan amount is paid in full at the end of the loan term is a(n)  
   A. annualized loan.  
   B. conventional loan.  
   C. fully amortizing loan.  
   D. partially amortizing loan.  

   Correct answer is C. - When a mortgage loan has periodic payments that pay both principal and interest payment so that the loan is paid in full at the end of the term, it is known as a fully amortizing loan.

2. Which statement about 15-year mortgages is FALSE?  
   A. Higher interest rates are usually charged.  
   B. There is an earlier loss of interest deduction for income tax purposes.  
   C. They have higher monthly payments.  
   D. They result in less interest owed.  

   Correct answer is A. - A shorter-term loan, such as a 15-year loan, poses less of a risk to a lender. Therefore, because the risk is lower, lenders charge a lower interest rate for these loans.

3. You are pre-qualifying a buyer for a conventional loan on a house with the purchase price of $160,000. She states she does not want to pay PMI on the loan. In that case, what is the maximum loan amount she can receive (assuming no lender-paid PMI)?  
   A. $32,000  
   B. **$128,000**  
   C. $136,000  
   D. $144,000  

   Correct answer is B. - A loan without PMI requires a LTV of 80% or a down payment of 20%. With a sale price of $160,000 and a loan to value of 80%, the loan amount will be $128,000.
4. Which type of mortgage is NOT insured or guaranteed by the government?
   A. conventional mortgage
   B. FHA mortgage
   C. rural home mortgage
   D. VA mortgage

   Correct answer is A. - A loan that is not government insured or guaranteed is known as a conventional mortgage loan.

5. When seeking an 80% conventional loan with the seller taking back a second mortgage, the buyer
   A. can expect to pay a higher interest rate than with a 90% loan.
   B. may choose which mortgage (first or second) will have lien priority.
   C. must make at least a 5% down payment from personal funds.
   D. must make at least a 20% down payment from personal funds.

   Correct answer is C. - FNMA and FHLMC both require a 5% investment from the borrower’s own funds before any secondary financing or gift funds may be applied to the transaction.

6. PMI must be canceled
   A. any time the borrower requests it.
   B. only if the lender is satisfied that the borrower is no longer a credit risk.
   C. when a home has been paid down to 78% of its original value and the borrower is current.
   D. whenever a new appraisal is ordered, regardless of the value.

   Correct answer is C. - The Homeowner’s Protection Act requires a mortgage lender to cancel PMI when the loan-to-value reaches 78% of the original value of the mortgaged property.

7. Lenders are often willing to charge lower interest rates for 15-year mortgages because the
   A. borrower is always a better risk.
   B. interest rate is fixed for a longer period of time.
   C. loan funds will be repaid more quickly.
   D. loan qualifications are much more stringent.

   Correct answer is C. - A shorter-term mortgage loan will have a lower interest rate charge because the lender will have their funds returned sooner.
8. A buyer is paying $200,000 for a house. He makes a $30,000 down payment, gets a first mortgage for $160,000, and a second mortgage to cover the balance. What is his CLTV?

A. 70%
B. 75%
C. 80%
D. 85%

Correct answer is D. - The first mortgage amount is $160,000. The second mortgage amount is the sale price minus the first mortgage and the down payment amounts: $200,000 – $190,000 ($160,000 first mortgage + $30,000 down payment) = $10,000. $160,000 + $10,000 = $170,000, which is the sum of all liens on the property. $170,000 ÷ $200,000 (sale price) = 85% CLTV.
Chapter 14

14.1 Knowledge Check, Page 266

1. The SAFE Act requires all MLOs to be federally registered with the NMLS system.
   A. true
   B. false

   Correct answer is B. False - Under the SAFE Act, an MLO is required to be either state-licensed or federally registered.

2. The SAFE Act establishes national minimum standards for pre-licensing education and annual continuing education of MLOs.
   A. true
   B. false

   Correct answer is A. True - The SAFE Act requires national minimum educational standards for MLOs to enhance consumer protection and reduce fraud.

14.2 Knowledge Check, Page 267

1. Under the SAFE Act, the state regulatory authority is responsible for ensuring the proper and legal control of MLO licensing within the state.
   A. true
   B. false

   Correct answer is A. True - The state regulatory authority must effectively supervise and enforce the law under the SAFE Act.

2. Which of the following is NOT a financial protection method required of states by the SAFE Act?
   A. federal fund
   B. minimum net worth
   C. state fund
   D. surety fund

   Correct answer is A. - A federal fund is not required as a financial protection method under the SAFE Act.
14.3 Knowledge Check, Page 269

The SAFE Act requires each state to control the mortgage lending industry by a system that issues, suspends, denies, or revokes the licenses of parties covered by the Act.

A. true
B. false

Correct answer is A. True. The SAFE Act authorizes states to control the licensing process of the mortgage lending industry.

14.4 Apply Your Knowledge, Page 271

Identify whether an MLO’s professional standing calls for License Required (LR) or No License Required (NLR) for the following tasks:

1. Pass a Federal test with a 75% score. LR NLR
2. Receive an application in the mail and forward the information without reviewing it. LR NLR
3. Provide a set of fingerprints with license application. LR NLR
4. Explain contents of an application to a borrower. LR NLR
5. Describe loan application process to a borrower. LR NLR
6. Demonstrate financial responsibility. LR NLR
7. Arrange closing and other aspects of the mortgage process. LR NLR
8. Seller who provides financing to homebuyers for three or fewer properties in a year. LR NLR
9. Provide the borrowers an interest rate quote. LR NLR

Answer key:

- License Required (LR): 1, 3, 6, 9
- No License Required (NLR): 2, 4, 5, 7, 8

14.5 Knowledge Check, Page 276
An individual who acts as an MLO in providing financing for the sale of her own residence would NOT require licensing as long as it is not a habitual and frequent activity.

A. true  
B. false  

Correct answer is A. True - Under these conditions, the SAFE Act exempts an individual from holding an MLO license.

Chapter 14 Quiz, Page 278

1. Under the SAFE Act, the state regulatory authority is responsible for the following minimum requirements EXCEPT
   A. enforcement of SAFE Act regulations.
   B. establishment of a monetary assessment penalty process for individuals who practice as MLOs without a license.
   C. maintenance of records and enforcement of violations for public access.
   D. registration of all MLOs with the NMLS.

Correct answer is C. - The state regulatory authority must regularly report violations and enforcement actions to the NMLS; maintaining public access to the information is not specified under the SAFE Act.

2. A mortgage broker may NOT be compensated for
   A. participating in loan closing.
   B. providing referrals.
   C. taking applications.
   D. verifying property information.

Correct answer is B. - That would be a violation of Section 8 of RESPA. A broker may be compensated for participating in loan closing, taking applications, and verifying property information.

3. Which of the following penalties is the state regulatory authority NOT allowed to administer?
   A. civil sanction
   B. license revocation
   C. monetary payment
   D. prison sentence
Correct answer is D. - State (and federal) authorities are not authorized to impose a prison sentence for violations of the law.

4. An individual's act is "for compensation or gain" when that individual
   A. achieves a profit (capital gain) from the transaction.
   B. has ownership interest in the transaction.
   C. is a W-2 employee.
   D. receives something of value.

Correct answer is D. - An individual’s act is for compensation or gain if the individual receives in connection with their activities any thing of value, including, but not limited to, payment of a salary, bonus, or commission. The concept of “thing of value” is interpreted broadly and is not limited only to payments that are contingent upon the closing of a loan.

5. Performing which task requires licensing?
   A. analyzing a loan application that is received from a consumer
   B. communicating details of a loan closing arrangement
   C. making an underwriting decision
   D. offering or negotiating loan terms

Correct answer is D. - Of these options, the only task that requires licensing is offering or negotiating loan terms.

6. Which is an example of “offering or negotiating the terms of a loan”?
   A. communicating details of loan closing arrangements
   B. communicating directly or indirectly with a borrower in order to reach a mutual understanding about prospective residential mortgage loan terms
   C. describing the steps that a borrower or prospective borrower would need to take in order to obtain a loan offer
   D. providing general explanations or responses to consumer inquiries about loan programs

Correct answer is B. - Communicating prospective residential mortgage loan terms to a borrower, whether directly or indirectly, is considered an example of the task of offering or negotiating the terms of a loan.