

CFPB Mortgage Compliance Training (MCT) 3 Practice Test (Sample)

Study Guide



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Questions

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- 1. If a consumer has properly disputed a debt in writing, what action cannot be taken?**
 - A. Stop collection efforts**
 - B. Mail the consumer proof of validity of the debt**
 - C. Provide the consumer with the name and address of the original creditor**
 - D. Resume collection efforts without first mailing proof of the debt to the consumer**
- 2. Under the Unfair, Deceptive or Abusive Acts or Practices statutes, when is a practice considered deceptive?**
 - A. When it causes substantial injury to consumers**
 - B. When the injury could have been avoided**
 - C. When misrepresentation is likely to mislead**
 - D. All of the above**
- 3. Which of the following is a goal of the CFPB?**
 - A. To increase the volume of mortgage lending**
 - B. To simplify the mortgage application process**
 - C. To protect consumers from unfair mortgage practices**
 - D. To promote home equality through lending**
- 4. True or False: A solicitation must contain the Consumer Financial Protection Bureau's website address for information on credit cards.**
 - A. True**
 - B. False**
- 5. Which information must financial institutions request from loan applicants for a principal dwelling?**
 - A. Number of Dependents, Residency Status, Race**
 - B. Familial Status, Race, Dependents, Age**
 - C. Ethnicity, Race, Sex, Marital Status, Age**
 - D. Familial Status, Ethnicity, Sex, Age**

- 6. Which statement is true regarding credit card lenders and prescreening?**
- A. A credit card lender must provide a firm offer of credit to each consumer.**
 - B. A credit card lender may not verify creditworthiness of consumers on a prescreen list.**
 - C. Prescreening involves a credit bureau pulling reports on specific consumers for a lender.**
 - D. All prescreening offers must be approved by the consumer.**
- 7. How long must Big City Bank provide notice before increasing its credit card annual fee?**
- A. 5 days**
 - B. 10 days**
 - C. 15 days**
 - D. 30 days**
- 8. What does a FICO score represent?**
- A. A measure of a borrower's income**
 - B. A credit score that helps lenders determine a borrower's creditworthiness**
 - C. The total debt of a borrower**
 - D. A rating of a borrower's financial stability**
- 9. Which of the following is accurate regarding The Fair Credit Reporting Act (FCRA)?**
- A. It permits consumers to challenge the accuracy of their credit ratings**
 - B. It prohibits discrimination on the basis of race, color, national origin, religion, age, sex, marital status, receipt of any public assistance or the exercise of legal rights**
 - C. It provides consumers with a private right to sue lenders for violations**
 - D. A and B**

10. Which of the following best describes a joint tenancy account?

- A. Accounts that require only one signature for withdrawal**
- B. Accounts that require signatures of both holders for withdrawals**
- C. Accounts designated for business transactions only**
- D. Accounts with no withdrawal limitations**

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Answers

SAMPLE

1. D
2. C
3. C
4. A
5. C
6. C
7. C
8. B
9. A
10. B

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Explanations

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1. If a consumer has properly disputed a debt in writing, what action cannot be taken?

- A. Stop collection efforts**
- B. Mail the consumer proof of validity of the debt**
- C. Provide the consumer with the name and address of the original creditor**
- D. Resume collection efforts without first mailing proof of the debt to the consumer**

When a consumer properly disputes a debt in writing, the Fair Debt Collection Practices Act (FDCPA) outlines specific protections for consumers. One key protection is that the debt collector must cease collection efforts and cannot resume them until they have verified the debt and provided the consumer with proof of its validity. This is why the action of resuming collection efforts without first mailing proof of the debt to the consumer cannot be taken. In this context, the requirement for debt verification protects consumers from unfair practices and ensures that they are not subjected to further collection attempts until they have been informed about the legitimacy of the debt in question. The onus is on the debt collector to provide the necessary documentation before any subsequent collection efforts are made. This establishes a fair process for resolving disputes over debts, emphasizing the consumer's right to challenge the validity of the debt they allegedly owe.

2. Under the Unfair, Deceptive or Abusive Acts or Practices statutes, when is a practice considered deceptive?

- A. When it causes substantial injury to consumers**
- B. When the injury could have been avoided**
- C. When misrepresentation is likely to mislead**
- D. All of the above**

A practice is considered deceptive under the Unfair, Deceptive or Abusive Acts or Practices statutes when misrepresentation is likely to mislead consumers. This means that if a business creates a false impression through statements or omissions that a reasonable consumer would find misleading, it qualifies as a deceptive practice. The focus is on the potential to mislead rather than the actual injury that might result from the misrepresentation. The intent behind this definition is to protect consumers from being led to believe something that isn't true, regardless of whether they ultimately suffer harm or not. It acknowledges that misleading information can affect consumer choices, and the potential for the misinformation to be harmful can exist even in the absence of actual injury. While substantial injury and the ability to avoid it are important aspects of consumer protection, they relate more to unfair practices rather than the specific criterion for deception. Therefore, the emphasis on misrepresentation and its likelihood to mislead is key to identifying a deceptive practice under these statutes.

3. Which of the following is a goal of the CFPB?

- A. To increase the volume of mortgage lending
- B. To simplify the mortgage application process
- C. To protect consumers from unfair mortgage practices**
- D. To promote home equality through lending

The goal of the Consumer Financial Protection Bureau (CFPB) is fundamentally centered around consumer protection in financial markets, particularly in the mortgage sector. This emphasis on safeguarding consumers means preventing them from falling victim to unfair, deceptive, or abusive practices that can arise when dealing with mortgages and other financial products. By focusing on protecting consumers from unfair mortgage practices, the CFPB works to ensure that lenders adhere to fair lending laws and that consumers are treated equitably throughout the mortgage process. This goal aligns with the agency's mission to promote transparency and accountability in the lending industry, thus empowering consumers with better information and tools to make informed financial decisions. The other options highlight various aspects of mortgage lending and practices, but they do not encapsulate the primary mission of the CFPB. Increasing the volume of mortgage lending could lead to potential risks if not balanced with consumer protection. Simplifying the mortgage application process is a helpful initiative, yet it is secondary to ensuring that such processes are fair and equitable. Promoting home equality through lending is an important objective as well, but it is one facet of the broader goal of protecting consumers in financial products.

4. True or False: A solicitation must contain the Consumer Financial Protection Bureau's website address for information on credit cards.

- A. True**
- B. False

The assertion that a solicitation must contain the Consumer Financial Protection Bureau's (CFPB) website address for information on credit cards is indeed true. This requirement is part of ensuring transparency and providing consumers with access to reliable information regarding credit products. By including the CFPB's website address, consumers are directed to an authoritative resource where they can find comprehensive information about credit cards, including how to make informed decisions, understand their rights, and learn about consumer protections. This practice promotes responsible lending and helps uphold consumer protection standards within the financial sector.

5. Which information must financial institutions request from loan applicants for a principal dwelling?

- A. Number of Dependents, Residency Status, Race**
- B. Familial Status, Race, Dependents, Age**
- C. Ethnicity, Race, Sex, Marital Status, Age**
- D. Familial Status, Ethnicity, Sex, Age**

The requirement for financial institutions to collect certain demographic information from loan applicants is tied to the regulations established under applicable fair lending laws, specifically the Home Mortgage Disclosure Act (HMDA). The intent behind collecting this data is to ensure compliance, prevent discrimination, and promote fair lending practices. The correct choice encompasses ethnicity, race, sex, marital status, and age, all of which are critical parameters that financial institutions are mandated to gather. This information is important because it contributes to the analysis of lending patterns and helps regulators assess whether there may be discrimination occurring in lending practices based on these characteristics. The inclusion of marital status is particularly relevant as it assists in understanding the applicant's financial responsibilities and stability, influencing lending decisions. Furthermore, this comprehensive set of demographics allows for a more thorough overview of the borrowers, helping to foster transparency and accountability in the lending process. In contrast, the other answer choices miss some of these essential components required for full compliance with HMDA and other fair lending requirements. They either lack critical identifiers such as marital status or do not provide a complete picture of the applicant demographics as specified by regulations. Collectively, these aspects ensure that financial institutions are also able to address the needs of a diverse clientele effectively.

6. Which statement is true regarding credit card lenders and prescreening?

- A. A credit card lender must provide a firm offer of credit to each consumer.**
- B. A credit card lender may not verify creditworthiness of consumers on a prescreen list.**
- C. Prescreening involves a credit bureau pulling reports on specific consumers for a lender.**
- D. All prescreening offers must be approved by the consumer.**

The correct understanding focuses on the concept of prescreening in relation to credit card offers. Prescreening allows lenders to identify potential borrowers based on specific criteria and obtain lists of consumers who meet those criteria from credit bureaus. Option C accurately reflects this process, as it indicates that prescreening involves a credit bureau pulling credit reports for specific consumers that the lender intends to target for credit offers. This procedure enables lenders to streamline their marketing efforts by ensuring they are offering credit to consumers who are more likely to qualify based on their credit profiles. In the context of prescreening, credit card lenders aren't required to extend a firm offer of credit to all consumers but rather target those who meet certain risk parameters. This is distinct from making a blanket offer to an entire population. Additionally, the activities of prescreening don't necessitate consumer approval prior to the credit report pull, nor do they restrict lenders from verifying creditworthiness of consumers included on prescreen lists, thus making option C the only accurate statement.

7. How long must Big City Bank provide notice before increasing its credit card annual fee?

- A. 5 days**
- B. 10 days**
- C. 15 days**
- D. 30 days**

The correct answer is that Big City Bank must provide 30 days' notice before increasing its credit card annual fee. This requirement is in line with regulations enforced by the Credit Card Accountability Responsibility and Disclosure (CARD) Act, which mandates that card issuers notify consumers of changes to the terms of their accounts, including fee increases, a minimum of 30 days before the changes take effect. The intention behind this regulation is to ensure that consumers have adequate notice and the opportunity to consider their options before they incur additional costs, promoting transparency and fairness in credit card practices.

8. What does a FICO score represent?

- A. A measure of a borrower's income**
- B. A credit score that helps lenders determine a borrower's creditworthiness**
- C. The total debt of a borrower**
- D. A rating of a borrower's financial stability**

A FICO score is a crucial metric in the lending process, as it serves as a credit score that lenders use to assess a borrower's creditworthiness. This score is derived from the borrower's credit report, which includes data on their credit history, payment patterns, and overall debt management. A higher FICO score generally indicates a lower risk for lenders, suggesting that the borrower is more likely to repay their debts on time. This score plays a vital role in determining the terms of a loan, such as interest rates and approval likelihood. In the context of the other options, the measure of a borrower's income is not represented by a FICO score; rather, lenders consider income separately when evaluating loan applications. The total debt of a borrower is also not the same as a FICO score, although it can influence the score; the FICO score reflects how well a borrower manages their debt rather than just the amount owed. Lastly, a rating of a borrower's financial stability encompasses broader financial factors beyond just credit, whereas the FICO score is specifically focused on credit behavior and risk assessment.

9. Which of the following is accurate regarding The Fair Credit Reporting Act (FCRA)?

- A. It permits consumers to challenge the accuracy of their credit ratings**
- B. It prohibits discrimination on the basis of race, color, national origin, religion, age, sex, marital status, receipt of any public assistance or the exercise of legal rights**
- C. It provides consumers with a private right to sue lenders for violations**
- D. A and B**

The Fair Credit Reporting Act (FCRA) is primarily designed to promote accuracy and privacy in consumer credit reporting. The accurate statement regarding the FCRA is that it does indeed permit consumers to challenge the accuracy of their credit ratings. Under the FCRA, consumers have the right to dispute any inaccuracies in their credit reports, which is a fundamental protection that helps ensure that a consumer's credit history is reported fairly and accurately. When a consumer disputes information, the credit reporting agency has a responsibility to investigate the claim within a reasonable time frame, usually 30 days, and if the information is found to be inaccurate, it must be corrected or deleted. This mechanism supports the broader intention of the FCRA to empower consumers over their financial data, allowing them to have a say in and protect their own creditworthiness. While the other options touch on important themes related to consumer rights, they are not strictly part of the FCRA. Discrimination protections are generally covered under different laws, such as the Equal Credit Opportunity Act (ECOA), which addresses discrimination in lending practices based on various demographics. Private rights to sue for violations also relate more to other consumer protection laws than specifically to the FCRA. Therefore, the focus of the FCRA on allowing consumers to

10. Which of the following best describes a joint tenancy account?

- A. Accounts that require only one signature for withdrawal**
- B. Accounts that require signatures of both holders for withdrawals**
- C. Accounts designated for business transactions only**
- D. Accounts with no withdrawal limitations**

A joint tenancy account is a type of account that is owned by two or more individuals, where each person has an equal share of the account. In the context of withdrawals, joint tenancy accounts typically require the signatures of all account holders for any withdrawals to be made. This requirement is fundamental to the nature of joint tenancy, as it establishes that all parties must agree and cooperate in managing the account, which helps prevent any one party from unilaterally accessing or controlling the funds. The distinction of requiring signatures from both holders reinforces the principle of equal ownership and shared responsibility among the account holders, ensuring that any financial decisions made regarding the account involve all parties. This contrasts with other types of accounts that may allow one individual to manage the account independently or may be restricted to business activities only, thereby highlighting the collaborative aspect of joint tenancy accounts.