CFPB Mortgage Compliance Training (MCT) 4 Practice Test (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **What is the main purpose of the Truth in Lending Act (TILA)?**
   A. To collect annual loan performance data
   B. To limit borrower fees and penalties
   C. To provide consumers with clear information about credit terms
   D. To eliminate discrimination in lending

2. **All depositories are required to report and adjust their reserve accounts to the Federal Reserve:**
   A. True
   B. False

3. **How many days does Domus Financial have to resolve an error if it provisionally credited the affected account?**
   A. 10
   B. 20
   C. 45
   D. 90

4. **Which legislative act established the Consumer Financial Protection Bureau (CFPB)?**
   A. The Sarbanes-Oxley Act
   B. The Dodd-Frank Wall Street Reform and Consumer Protection Act
   C. The Fair Housing Act
   D. The Gramm-Leach-Bliley Act

5. **What is the primary intent of the Fair Housing Act?**
   A. To regulate interest rates on loans.
   B. To prevent discrimination in housing-related transactions.
   C. To help lenders maximize their profit margins.
   D. To require detailed financial reporting by banks.

6. Which regulation applies to loans made to executive officers and related interests?

A. Regulation B - Equal Credit Opportunity Act

B. Servicemembers Civil Relief Act

C. Regulation O - Loans to Insiders

D. Regulation BB - Community Reinvestment Act

7. What action is required from a lender when a loan is sold on the secondary market?

A. Notify the borrower immediately.

B. Hold a meeting with all stakeholders.

C. Revert the loan to the original lender.

D. Increase the interest rate for the borrower.

8. What is the primary goal of loss mitigation strategies?

A. To maximize lender profits

B. To assist struggling borrowers in avoiding foreclosure

C. To sell off distressed assets

D. To reduce property values

9. Which step of the lending process involves signing forms?

A. Application

B. Underwriting

C. Closing

D. Servicing

10. To cancel PMI, what must the principal balance of the loan be as a percentage of the original value?

A. 82 percent

B. 76 percent

C. 78 percent

D. 80 percent

Answers

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

Explanations

1. What is the main purpose of the Truth in Lending Act (TILA)?

A. To collect annual loan performance data

B. To limit borrower fees and penalties

C. To provide consumers with clear information about credit terms

D. To eliminate discrimination in lending

The main purpose of the Truth in Lending Act (TILA) is to provide consumers with clear and accurate information about the terms and conditions of credit. This legislation aims to promote informed decision-making by ensuring that borrowers are fully aware of the costs associated with borrowing, such as interest rates, fees, and other financial obligations. By mandating that lenders disclose these details in a standardized format, TILA helps consumers compare different lending options and understand what they are agreeing to before entering into a loan agreement. This transparency is critical for consumer protection, as it helps prevent deceptive practices and empowers individuals to make better financial choices. The clear presentation of credit terms ensures that consumers can assess their own financial situations realistically and avoid potential pitfalls when taking on debt. Overall, TILA plays a vital role in shaping a more transparent lending environment that prioritizes consumer rights and understanding.

2. All depositories are required to report and adjust their reserve accounts to the Federal Reserve:

A. True

B. False

In the context of financial institutions, particularly depository institutions, not all depositories are required to report and adjust their reserve accounts to the Federal Reserve. Reserve accounts typically pertain to those banks and depository institutions that are members of the Federal Reserve System and are subject to certain requirements for maintaining reserves against their deposits. This requirement primarily applies to those institutions that fall under the jurisdiction of the Federal Reserve, meaning that non-member banks, credit unions, and smaller financial institutions may not be required to adhere to these reporting and adjusting protocols. Therefore, the statement suggesting that all depositories must report and adjust their reserve accounts to the Federal Reserve is inaccurate, as it overlooks the diversity among depository institutions and the regulations that specifically apply to certain members within the system. This differentiation is crucial for understanding the complexities of compliance within the financial sector.

3. How many days does Domus Financial have to resolve an error if it provisionally credited the affected account?

A. 10

B. 20

C. 45

D. 90

When a financial institution like Domus Financial receives a notice of an error on a consumer's account and has provisionally credited that account, federal regulations require that they have a specific timeframe to resolve the dispute. In this context, the correct answer is 45 days. The Consumer Financial Protection Bureau (CFPB) regulations under the Electronic Fund Transfer Act (EFTA) stipulate that once a financial institution provisions an account with the disputed amount, they must complete their investigation and make a determination regarding the error within 45 days. This timeframe ensures that consumers are protected and that disputes are handled in a timely manner. Additionally, it allows the institution adequate time to investigate the claim thoroughly and reach a conclusion about whether the error occurred or not. Understanding these timeframes is critical for compliance with federal regulations, as they help maintain consumer trust and uphold the rights of consumers in financial transactions.

4. Which legislative act established the Consumer Financial Protection Bureau (CFPB)?

A. The Sarbanes-Oxley Act

B. The Dodd-Frank Wall Street Reform and Consumer Protection Act

C. The Fair Housing Act

D. The Gramm-Leach-Bliley Act

The establishment of the Consumer Financial Protection Bureau (CFPB) is a direct result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was enacted in response to the 2007-2008 financial crisis. This legislation aimed to enhance consumer protection in the financial services sector, promote financial stability, and address the issues that contributed to the crisis. The CFPB was specifically created to oversee and enforce consumer protection laws in the financial services industry, including mortgages, credit cards, and other financial products. Its formation was part of a broader effort within the Dodd-Frank Act to reduce the risk of future financial crises and improve transparency and accountability in financial practices. Other legislative acts mentioned do not pertain to the establishment of the CFPB. The Sarbanes-Oxley Act primarily addresses corporate governance and financial reporting, the Fair Housing Act focuses on preventing discrimination in housing practices, and the Gramm-Leach-Bliley Act relates to financial services modernization. Thus, the Dodd-Frank Act is uniquely linked to the creation of the CFPB, justifying why it is the correct answer.

5. What is the primary intent of the Fair Housing Act?

A. To regulate interest rates on loans.

B. To prevent discrimination in housing-related transactions.

C. To help lenders maximize their profit margins.

D. To require detailed financial reporting by banks.

The primary intent of the Fair Housing Act is to prevent discrimination in housing-related transactions. This landmark piece of legislation, enacted in 1968, aims to ensure that all individuals have equal opportunities in the housing market, regardless of race, color, national origin, religion, sex, familial status, or disability. The Act establishes that discriminatory practices in the sale, rental, or financing of housing are prohibited, promoting the idea that everyone deserves the right to access housing without facing bias or denial based on those characteristics. By focusing on this vital aspect of fairness and equality, the Fair Housing Act seeks to create inclusive communities and dismantle systemic barriers that have historically marginalized certain groups. The other options do not align with the purpose of the Fair Housing Act. For instance, regulating interest rates on loans addresses financial aspects rather than housing discrimination, while maximizing profit margins for lenders is a business-centric goal that does not concern equitable treatment in housing. Lastly, requiring detailed financial reporting by banks pertains to transparency and financial regulation rather than the fundamental rights associated with housing opportunities.

6. Which regulation applies to loans made to executive officers and related interests?

A. Regulation B - Equal Credit Opportunity Act

B. Servicemembers Civil Relief Act

C. Regulation O - Loans to Insiders

D. Regulation BB - Community Reinvestment Act

The correct regulation that applies to loans made to executive officers and related interests is Regulation O, which specifically addresses Loans to Insiders. This regulation was established to promote transparency and prevent conflicts of interest in lending practices involving those who hold significant power within a financial institution, such as executive officers and directors. Regulation O sets limitations on the amount of credit that can be extended to insiders and requires that such loans be made on terms that are not more favorable than those offered to non-insiders, thereby helping to ensure fair lending practices. This regulatory framework is essential for maintaining the integrity of financial institutions and safeguarding against potential abuses of power or preferential treatment in lending. While the other options are important regulations in their own contexts—such as ensuring equal credit opportunities or providing protections for servicemembers—Regulation O is specifically focused on the criteria and regulations surrounding loans to individuals in positions of authority within a banking institution.

7. What action is required from a lender when a loan is sold on the secondary market?

A. Notify the borrower immediately.

B. Hold a meeting with all stakeholders.

C. Revert the loan to the original lender.

D. Increase the interest rate for the borrower.

When a loan is sold on the secondary market, the lender is required to notify the borrower as it is an important change in the status of the loan that affects the borrower's payment obligations. This notification is crucial for ensuring that the borrower is aware of who will be servicing the loan and where to send future payments. It maintains transparency in the lending process and upholds the borrower's rights, ensuring they understand the implications of the sale on their mortgage. In contrast, holding a meeting with all stakeholders may not be necessary as the transaction is typically handled administratively without requiring direct involvement from the borrower. Reverting the loan to the original lender is not a standard practice in secondary market transactions, as the purpose of selling is often to free up capital for the lender to make additional loans, rather than recalling sold loans. Increasing the interest rate for the borrower as a result of a sale is not a requirement and would be considered an unethical practice unless the terms of the loan explicitly allow for such actions under certain conditions, which would be rare and typically against consumer protection regulations.

8. What is the primary goal of loss mitigation strategies?

A. To maximize lender profits

B. To assist struggling borrowers in avoiding foreclosure

C. To sell off distressed assets

D. To reduce property values

The primary goal of loss mitigation strategies is to assist struggling borrowers in avoiding foreclosure. These strategies are designed to provide support to homeowners who are experiencing financial difficulties, enabling them to keep their homes and fulfill their mortgage obligations. By offering solutions such as loan modifications, repayment plans, or forbearance agreements, lenders aim to help borrowers stabilize their financial situations. This approach benefits all parties involved by potentially reducing the overall costs linked to foreclosure processes, preserving property values, and maintaining community stability. Loss mitigation is rooted in the understanding that keeping borrowers in their homes is often more advantageous than pursuing foreclosure, which can be time-consuming and costly for lenders. The focus on supporting borrowers ultimately aligns with broader regulatory goals and consumer protection policies established by agencies like the CFPB.

9. Which step of the lending process involves signing forms?

A. Application

B. Underwriting

C. Closing

D. Servicing

The step of the lending process that involves signing forms is the closing phase. During closing, all parties involved in the transaction come together to finalize the mortgage agreement. This is where the borrower reviews and signs a variety of documents, including the mortgage note, disclosure statements, and other legal documents necessary for the transaction. Closing is a critical step because it marks the official transfer of ownership and the establishment of the lien on the property. This step is also when funds are disbursed, and the borrower receives their mortgage loan to acquire the property. In contrast, the application step focuses on the initial gathering of borrower information and documentation necessary for processing a loan, but no formal signing of final documents occurs here. Underwriting is the evaluation process where a lender assesses the creditworthiness of the applicant and determines the terms of the mortgage, yet it does not involve signing any forms. Lastly, servicing refers to the ongoing management of the loan after it has been closed, which again does not involve signing documents related to the transaction itself. Therefore, the closing is the definitive step for signing forms related to the mortgage agreement.

10. To cancel PMI, what must the principal balance of the loan be as a percentage of the original value?

A. 82 percent

B. 76 percent

C. 78 percent

D. 80 percent

To cancel Private Mortgage Insurance (PMI), the principal balance of the loan must be at or below 80 percent of the original value of the property. This threshold is established to protect lenders in case the borrower defaults on the loan. Once the borrower's equity reaches at least 20 percent, they are eligible to request the cancellation of PMI. This 80 percent benchmark means that if the remaining loan balance is equal to or less than 80 percent of the home's original value, the borrower can initiate the process to have PMI removed. It serves as an important safeguard for both borrowers, who save on monthly mortgage insurance premiums, and lenders, who have reduced risk in lending. The other percentages listed do not align with the PMI cancellation requirements set forth by guidelines for conventional loans. For example, while 78 percent is often mentioned in relation to automatic termination of PMI, it does not apply for the borrower to proactively cancel PMI based on their request. Likewise, other options, such as 82 percent and 76 percent, do not meet the established thresholds for PMI cancellation either.