Mortgage Loan Originator (MLO) National Exam – Artricia Woods Practice Exam (Sample)

Study Guide

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Questions

1. **Which document is typically used to transfer ownership of real property?**
   - A. Deed
   - B. Mortgage note
   - C. Title insurance
   - D. Closing disclosure

2. **Which of the following costs is classified as a prepaid category of borrower costs?**
   - A. The credit card charge for the appraisal
   - B. The lender's requirement to place 5 months of property tax reserves in escrow
   - C. The annual premium for homeowner's insurance required at closing
   - D. The cost of title insurance for the lender

3. **If a consumer dispute about data accuracy is not resolved, what right may they exercise?**
   - A. Consumer may receive monthly free credit reports to monitor the damage
   - B. Consumer may add a brief statement to their credit file
   - C. Consumer may require CRA to stop issuing credit reports for 90 days
   - D. Consumer may file a formal complaint with the Federal Reserve

4. **Which of the following laws was NOT implemented in part to help stem discrimination in mortgage lending?**
   - A. HMDA.
   - B. ECOA.
   - C. FCRA
   - D. DNCIA.

5. **How long does a creditor have to return any money collected related to a rescinded loan?**
   - A. 10 calendar days
   - B. 30 calendar days
   - C. 20 calendar days
   - D. 5 calendar days

6. A lender must notify the borrower of its credit decision within how many days?

- **A. 30 business days, but only if it is an adverse decision**
- **B. 30 days of an approval, denial, or counter offer**
- **C. Of a denial within 60 days if the applicant does not expressly accept a counter offer**
- **D. 30 days of a denial, or within 60 days of an approval**

7. Which type of loan requires a down payment of at least 20% to avoid private mortgage insurance (PMI)?

- **A. FHA Loan**
- **B. VA Loan**
- **C. Conventional Loan**
- **D. USDA Loan**

8. What information is NOT required in the Federal Box of TILA disclosures?

- **A. The total finance charges incurred**
- **B. The interest rate of the loan**
- **C. The mandatory statement for borrowers**
- **D. The total payments calculated for the life of the loan**

9. When is it appropriate for a borrower to request changes to their loan?

- **A. Before the loan application is submitted**
- **B. Anytime before closing**
- **C. Only after the loan is funded**
- **D. Once the loan is in default**

10. What is typically included in the closing costs for a mortgage?

- **A. Homeowner's insurance**
- **B. Property taxes**
- **C. Title insurance**
- **D. All of the above**

Answers

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

Explanations

1. Which document is typically used to transfer ownership of real property?

A. Deed

B. Mortgage note

C. Title insurance

D. Closing disclosure

The document that is typically used to transfer ownership of real property is the deed. A deed is a legal instrument that conveys the interest in real estate from one party to another. It must be executed according to state laws, which generally require it to be in writing, signed by the grantor (the seller), and delivered to the grantee (the buyer). Deeds contain essential information such as the names of the parties involved, a description of the property, and the signature of the grantor. Once a deed is properly executed and delivered, it provides evidence of the ownership transfer, meaning the grantee now holds legal title to the property. The other documents listed serve different purposes in the real estate transaction process. For instance, a mortgage note represents the borrower's promise to repay the loan but does not transfer ownership. Title insurance protects against losses from defects in the title but does not facilitate the transfer itself. A closing disclosure provides a summary of the final terms and costs of a mortgage, ensuring transparency in the transaction but not affecting ownership transfer directly.

2. Which of the following costs is classified as a prepaid category of borrower costs?

A. The credit card charge for the appraisal

B. The lender's requirement to place 5 months of property tax reserves in escrow

C. The annual premium for homeowner's insurance required at closing

D. The cost of title insurance for the lender

The classification of costs as prepaid borrower costs typically refers to expenses that are paid upfront at closing for services that will benefit the borrower over a period of time. In this context, the annual premium for homeowner's insurance required at closing is indeed a prepaid cost. This expense is paid upfront to secure coverage for the home from the moment the loan closes, ensuring that the property is insured almost immediately, which is a requirement for most lenders. The other options listed do not fit the classification of prepaid costs in the same manner. For instance, the credit card charge for the appraisal might be an upfront cost, but it is typically not classified as prepaid in the same context as the insurance premium. The lender's requirement to place property tax reserves in escrow is more of a reserve or cushion for future expenses and not a payment for immediate benefit. The cost of title insurance benefits the lender as protection against title defects, but it is not something that is prepaid by the borrower in the same way that the homeowner's insurance premium would be.

3. If a consumer dispute about data accuracy is not resolved, what right may they exercise?

A. Consumer may receive monthly free credit reports to monitor the damage

B. Consumer may add a brief statement to their credit file

C. Consumer may require CRA to stop issuing credit reports for 90 days

D. Consumer may file a formal complaint with the Federal Reserve

The correct answer is that a consumer may add a brief statement to their credit file if a dispute about data accuracy is not resolved. Under the Fair Credit Reporting Act (FCRA), consumers have the right to request that a statement explaining their position be included in their credit report when they assert that there is an error on their report that has not been rectified. This statement allows consumers to present their side of the story to potential creditors, which can be particularly advantageous in demonstrating that there are inaccuracies in their credit history. This process helps to ensure consumers have a voice in their credit reporting and can mitigate potential negative impacts from unresolved disputes. Including a brief statement does not necessarily change the information on the report but provides context for any discrepancies that may affect their creditworthiness. While other choices may seem relevant, they do not match the rights guaranteed under the FCRA in the context of an unresolved dispute. For instance, receiving free monthly credit reports is not a right specifically tied to unresolved disputes, and requiring a credit reporting agency (CRA) to cease reporting is not an option allowed for this circumstance. Additionally, filing a formal complaint with the Federal Reserve pertains more to regulatory issues and oversight rather than individual dispute resolution rights. Thus, the option to add a brief statement

4. Which of the following laws was NOT implemented in part to help stem discrimination in mortgage lending?

A. HMDA.

B. ECOA.

C. FCRA

D. DNCIA.

The Home Mortgage Disclosure Act (HMDA) and the Equal Credit Opportunity Act (ECOA) were both enacted specifically to combat discrimination in the lending process. HMDA mandates financial institutions to provide data on their mortgage lending practices, which helps identify discriminatory patterns in lending. ECOA prohibits creditors from discriminating against applicants on the basis of race, color, religion, national origin, sex, marital status, or age. The Fair Credit Reporting Act (FCRA) focuses on the accuracy and privacy of information in consumer credit reports, ensuring fair treatment in credit reporting but is not primarily aimed at addressing discrimination in mortgage lending. The DNCIA, which stands for the Debt Collection Improvement Act, is related to the collection of debts and does not directly address or combat discrimination in mortgage lending practices. As such, identifying the DNCIA as the option that was not implemented to combat discrimination in mortgage lending is correct.

5. How long does a creditor have to return any money collected related to a rescinded loan?

A. 10 calendar days

B. 30 calendar days

C. 20 calendar days

D. 5 calendar days

In the context of mortgage lending, when a borrower rescinds a loan under the Truth in Lending Act (TILA), the creditor is required to act promptly to return any money collected from the borrower. The correct timeframe for returning funds in relation to a rescinded loan is 20 calendar days. Within this period, the creditor must not only refund any payments made but also cancel any security interests that may have been taken in the borrower's property. This regulation ensures that borrowers are not left waiting unnecessarily long for the return of funds after deciding to rescind a loan. It provides a clear and concise timeframe, promoting fairness and protection for consumers in the lending process. The other durations listed do not align with the stipulated guidelines under the Act, thus highlighting the importance of being familiar with these specific timelines in mortgage lending practices.

6. A lender must notify the borrower of its credit decision within how many days?

A. 30 business days, but only if it is an adverse decision

B. 30 days of an approval, denial, or counter offer

C. Of a denial within 60 days if the applicant does not expressly accept a counter offer

D. 30 days of a denial, or within 60 days of an approval

The correct answer emphasizes the timeframe in which a lender must communicate its credit decision to the borrower. Under the Equal Credit Opportunity Act (ECOA), a lender is required to notify the borrower of the credit decision within 30 days of receiving a completed loan application. This timeframe applies specifically to any type of decision—approval, denial, or a counter offer. This requirement ensures that borrowers are promptly informed about the status of their applications, which is crucial for their financial planning and decision-making. Timely communication fosters transparency and allows borrowers to understand their options or next steps, such as accepting a counter offer or exploring other lenders if denied. Other options include nuances that may not apply uniformly. For instance, specifying only adverse decisions or making distinctions based on counteroffer acceptance introduces additional complexity that isn't aligned with the straightforward 30-day notice requirement for all credit decisions. Therefore, the clarity provided in the correct answer aligns with the legal expectations set forth by lending regulations.

7. Which type of loan requires a down payment of at least 20% to avoid private mortgage insurance (PMI)?

A. FHA Loan

B. VA Loan

C. Conventional Loan

D. USDA Loan

A conventional loan typically requires a down payment of at least 20% to avoid private mortgage insurance (PMI). PMI is an insurance policy that protects the lender if the borrower defaults on the loan, and it is often applicable when the down payment is less than 20% of the home’s purchase price. This requirement is rooted in lender risk assessment practices, as lower down payments can increase the risk of default. By putting down 20% or more, borrowers can demonstrate greater equity in the property right from the outset, reducing the lender’s risk. In contrast, FHA loans, which are backed by the Federal Housing Administration, require mortgage insurance independent of the down payment amount—PMI is included regardless of how much is initially paid down. VA loans, available to eligible veterans, typically do not require any down payment or PMI at all, making them an attractive option. USDA loans, designed for rural homebuyers, may also not require a down payment and do not necessarily impose PMI if certain conditions are met. Thus, the 20% down payment requirement specifically applies to conventional loans to avoid PMI.

8. What information is NOT required in the Federal Box of TILA disclosures?

A. The total finance charges incurred

B. The interest rate of the loan

C. The mandatory statement for borrowers

D. The total payments calculated for the life of the loan

The interest rate of the loan is indeed a critical component of the TILA disclosures and is explicitly required to be included in the Federal Box. This box provides essential information to borrowers regarding the cost of credit, ensuring transparency in the lending process. The total finance charges incurred, the mandatory statement for borrowers, and the total payments calculated for the life of the loan are all required elements that help borrowers understand the full implications of the loan they are considering. These disclosures are designed to standardize the information provided to consumers, allowing them to compare different loan offers effectively. Understanding what's included in these disclosures is vital for compliance with TILA and for ensuring that consumers are fully informed before committing to a loan.

9. When is it appropriate for a borrower to request changes to their loan?

A. Before the loan application is submitted

B. Anytime before closing

C. Only after the loan is funded

D. Once the loan is in default

It is appropriate for a borrower to request changes to their loan anytime before closing because this period allows for adjustments to be made to ensure that the loan terms are acceptable to both the borrower and the lender. During the pre-closing phase, there is typically still flexibility regarding various loan aspects such as the interest rate, loan amount, or stipulated contingencies. Making changes before closing is imperative as it provides the opportunity to align the final loan agreement with the borrower's financial situation and goals. This can include adjusting loan terms to better fit the borrower's budget or addressing any new information that has arisen since the initial application. In contrast, requesting changes after the loan has been funded is problematic as the loan has already been legally executed and any alterations would not be feasible. Additionally, once a loan is in default, the focus shifts to remedying the default rather than altering loan terms. Lastly, requesting changes before the loan application is submitted wouldn't make sense, as there would be no application in process to modify.

10. What is typically included in the closing costs for a mortgage?

A. Homeowner's insurance

B. Property taxes

C. Title insurance

D. All of the above

Closing costs for a mortgage encompass a variety of expenses incurred during the finalization of a property transaction. This includes a range of fees and costs that both buyers and sellers may encounter. Homeowner's insurance is often required by lenders as a means to protect the property against potential hazards. It safeguards not only the investment in the home but also ensures that the lender's interest is protected in the event of damages or loss. Property taxes are charged by the local government and can be a significant cost at closing. Depending on the timing of the closing, certain prorated property taxes may need to be paid upfront, ensuring that the new owner is responsible only for the portion of the taxes belonging to their ownership period. Title insurance is also a critical component of closing costs. It protects against issues related to the title of the property, such as undisclosed liens or disputes regarding ownership. Lenders typically require this insurance to safeguard their investment. Including all these elements under closing costs showcases the comprehensive nature of the expenses involved in finalizing a mortgage, thus making the response that all of the mentioned costs fall under this umbrella accurate.