Mortgage Loan Originators (MLO) Federal Laws Practice Test (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **What is the only authorized website for obtaining a free annual credit report?**
   A. www.annualcreditreport.com
   B. www.freecreditreport.com
   C. www.creditreport.ftc
   D. www.annualcreditreport.gov

2. **For which type of properties does RESPA require the use of the Closing Disclosure?**
   A. Any commercial or residential property
   B. Any residential property
   C. One- to four-family residences
   D. Single-family dwellings only

3. **Under which act must financial institutions disclose their information-sharing practices to customers?**
   A. Truth in Lending Act
   B. Equal Credit Opportunity Act
   C. Gramm-Leach-Bliley Act
   D. Sarbanes-Oxley Act

4. **Which of the following loans would be considered traditional?**
   A. Adjustable-rate loan
   B. 30-year fixed rate loan
   C. Interest-only loan
   D. Balloon loan

5. **The only mortgage that Lucille's lender would give her is a high-cost loan that defers interest payments for the first two years. However, a high-cost loan that results in negative amortization is illegal under what law?**
   A. FACTA
   B. HOEPA
   C. RESPA
   D. SAFE

6. The Real Estate Settlement Procedures Act requires that the borrower sign the Loan Estimate at which point after the initial application?

A. 3 business days prior to closing

B. Within 30 days

C. Never

D. Within 3 business days

7. Which cost is included in the APR calculation on the closing disclosure forms?

A. Escrow deposit

B. Down payment

C. Mortgage insurance

D. Pest inspection fee

8. How soon after required disclosures are provided may a loan close?

A. On the next business day

B. On the 2nd business day after disclosures

C. On the 3rd business day after disclosures

D. On the 4th business day after disclosures

9. What is Regulation B also known as?

A. HMDA

B. RESPA

C. ECOA

D. TILA

10. Which of the following statements about loan estimates is true?

A. They can change at any time without notice.

B. They must be provided within 5 days of loan application.

C. They are optional for certain loans.

D. They do not require itemized fees.

Answers

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

Explanations

1. What is the only authorized website for obtaining a free annual credit report?

A. www.annualcreditreport.com

B. www.freecreditreport.com

C. www.creditreport.ftc

D. www.annualcreditreport.gov

The correct answer is the website www.annualcreditreport.com, which is the only authorized source for consumers to obtain a free annual credit report, as mandated by the Fair Credit Reporting Act (FCRA). This website allows individuals to access their credit reports from the three major credit reporting agencies—Equifax, Experian, and TransUnion—once every twelve months without charge. Using this official site ensures that consumers are receiving reports that are accurate and comprehensive. Additionally, this service is part of a regulatory effort to encourage consumers to remain aware of their credit standings and help mitigate identity theft. Other options listed do not provide a free annual credit report authorized by federal law. For example, www.freecreditreport.com may offer free credit scores or reports but typically requires enrollment in a paid service or trial that can lead to charges. Websites like www.creditreport.ftc do not exist as official sites for obtaining credit reports, and while www.annualcreditreport.gov seems similar to the correct answer, it is not the correct domain. Understanding the variations can ensure consumers utilize legitimate resources for managing their financial health.

2. For which type of properties does RESPA require the use of the Closing Disclosure?

A. Any commercial or residential property

B. Any residential property

C. One- to four-family residences

D. Single-family dwellings only

The correct answer is that RESPA requires the use of the Closing Disclosure for one- to four-family residences. The Real Estate Settlement Procedures Act (RESPA) is designed to provide transparency in the closing process for residential real estate transactions. The Closing Disclosure form is specifically mandated for use in residential transactions involving a consumer loan secured by real property, which includes homes that are one to four units in size. This focus on one- to four-family dwellings stems from RESPA's aim to protect consumers in typical residential lending scenarios, ensuring they receive clear and sufficient information regarding the terms of their mortgage loans and the settlement costs involved. It does not extend to commercial properties or larger multifamily dwellings beyond four units as these transactions often follow different lending practices that may not align with the consumer protection intentions of RESPA. By understanding this distinction, it becomes clear why the regulation specifically pertains to one- to four-family residences, ensuring consumers in the most common types of home purchases receive the protections afforded by the law.

3. Under which act must financial institutions disclose their information-sharing practices to customers?

A. Truth in Lending Act

B. Equal Credit Opportunity Act

C. Gramm-Leach-Bliley Act

D. Sarbanes-Oxley Act

The Gramm-Leach-Bliley Act (GLBA) is the legislation that requires financial institutions to disclose their information-sharing practices to customers. This act was established to enhance consumer protection and privacy, particularly in the way financial institutions handle and share personal financial information. Under the GLBA, financial institutions must provide a privacy notice that explains what information they collect, how they use it, and to whom they may disclose it. This ensures that consumers have a clear understanding of how their personal information will be treated, allowing them to make informed decisions regarding their financial relationships. The other acts mentioned, such as the Truth in Lending Act, primarily focus on ensuring that consumers receive clear information about the costs of credit, while the Equal Credit Opportunity Act aims to prevent discrimination in lending. The Sarbanes-Oxley Act deals with corporate governance and financial disclosures. None of these acts specifically target the disclosure of information-sharing practices in the same way that the Gramm-Leach-Bliley Act does, which directly addresses privacy and consumer rights in the financial sector.

4. Which of the following loans would be considered traditional?

A. Adjustable-rate loan

B. 30-year fixed rate loan

C. Interest-only loan

D. Balloon loan

A 30-year fixed rate loan is considered a traditional loan because it embodies the characteristics typically associated with conventional mortgage financing. This type of loan features a stable interest rate that does not change throughout the life of the loan, providing predictability in monthly payments for borrowers. The 30-year term is also standard in the industry, allowing borrowers to spread their payments over a longer period, which can result in lower monthly payments compared to shorter-term loans. In contrast, adjustable-rate loans fluctuate in interest rates, which may lead to variability in payments over time, making them less traditional in nature. Interest-only loans, where borrowers only pay interest for a specified time, and balloon loans, which require a large lump sum payment at the end of the term, also diverge from the straightforward structure of traditional mortgage products. These features can introduce complexity and risk, positioning them outside the conventional definitions of traditional loans. Therefore, the 30-year fixed rate loan stands out as the epitome of a traditional mortgage option.

5. The only mortgage that Lucille's lender would give her is a high-cost loan that defers interest payments for the first two years. However, a high-cost loan that results in negative amortization is illegal under what law?

A. FACTA

B. HOEPA

C. RESPA

D. SAFE

The scenario centers around high-cost loans and their regulation under federal law. The correct answer relates to HOEPA, the Home Ownership and Equity Protection Act. HOEPA was enacted to protect consumers from abusive lending practices, specifically concerning high-cost loans. One of the significant protections provided under HOEPA is the prohibition of certain loan features that are deemed predatory, including those that lead to negative amortization. Negative amortization occurs when the amount owed on a loan increases over time instead of decreasing, primarily because payments made do not cover the accruing interest. This situation can lead borrowers into deeper financial distress, which is why HOEPA explicitly prohibits high-cost loans that result in negative amortization. The other laws mentioned, such as FACTA (Fair and Accurate Credit Transactions Act), RESPA (Real Estate Settlement Procedures Act), and SAFE (Secure and Fair Enforcement for Mortgage Licensing Act), address different aspects of consumer protection and mortgage regulation but do not specifically outlaw the practice of negative amortization within the context of high-cost loans. Understanding HOEPA's role in protecting borrowers against high-cost loans that can lead to financial difficulty is crucial for Mortgage Loan Originators to ensure compliance with federal lending laws.

6. The Real Estate Settlement Procedures Act requires that the borrower sign the Loan Estimate at which point after the initial application?

A. 3 business days prior to closing

B. Within 30 days

C. Never

D. Within 3 business days

The Real Estate Settlement Procedures Act (RESPA) mandates that borrowers receive a Loan Estimate, which outlines the key terms of a mortgage and provides an estimate of the closing costs, after they submit a loan application. However, this does not require the borrower to "sign" the Loan Estimate, as it is intended to be informational and given to the borrower to review, rather than to be signed as part of the formal application process. Under RESPA, lenders must provide the Loan Estimate within three business days of receiving a borrower's application. This is a crucial consumer protection measure ensuring that borrowers understand the costs and terms associated with their loan well in advance of closing. Therefore, the requirement does not encompass a signing of the Loan Estimate as a mandatory act. Instead, it focuses on the timing of providing the document to the borrower for their understanding and decision-making process. Hence, stating that the borrower “never” has to sign it aligns with RESPA regulations.

7. Which cost is included in the APR calculation on the closing disclosure forms?

A. Escrow deposit

B. Down payment

C. Mortgage insurance

D. Pest inspection fee

The Annual Percentage Rate (APR) is a measure that reflects the total cost of borrowing, expressed as a yearly rate. It includes the interest rate along with certain costs associated with obtaining the loan, allowing borrowers to understand the true cost of a mortgage over time. In the context of the options provided, mortgage insurance is included in the APR calculation on the closing disclosure forms. This is significant because mortgage insurance, which protects the lender in case of default by the borrower, is a recurring cost that can affect the borrower's overall financial commitment to the loan. Including this cost in the APR gives borrowers a more comprehensive view of what their loan will cost them over its duration. Other costs listed do not contribute to the APR calculation. Escrow deposits are not factored in because they are not fees charged for borrowing but rather are payments set aside to cover property taxes and insurance. A down payment is an initial upfront cost and not a fee associated with the loan itself, so it also does not enter into the APR calculation. Lastly, a pest inspection fee is considered a one-time charge and is not included in the APR since it doesn't reflect the cost of borrowing over the loan's term. Understanding what is included in the APR is crucial for borrowers as it helps

8. How soon after required disclosures are provided may a loan close?

A. On the next business day

B. On the 2nd business day after disclosures

C. On the 3rd business day after disclosures

D. On the 4th business day after disclosures

The correct answer is that a loan may close on the 3rd business day after disclosures are provided. This timing is a key component of the federal regulations under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA) which are designed to ensure that consumers have adequate information to make informed decisions regarding their mortgage loans. According to these regulations, after the borrower receives the required disclosures, they are afforded a three-business-day waiting period which is meant to give them time to review the loan terms, consider their options, and understand their rights. The disclosures include the Loan Estimate and any other documents that detail the terms and costs of the loan, which is crucial for transparency in the lending process. This three-day period is essential to protect consumers from rushing into decisions that may not be in their best interest. Therefore, the loan can be scheduled to close on the third business day following the receipt of the required disclosures, ensuring compliance with federal laws aimed at promoting informed borrowing. If the loan was scheduled to close any sooner than that, it would not adhere to the mandated waiting period, potentially leading to compliance issues for the lender.

9. What is Regulation B also known as?

A. HMDA

B. RESPA

C. ECOA

D. TILA

Regulation B is known as the Equal Credit Opportunity Act (ECOA). This regulation was implemented to ensure that all consumers are given equal access to credit without discrimination on the basis of race, color, religion, national origin, sex, marital status, age, or reliance on public assistance programs. Regulation B mandates that lenders provide notice to applicants of any action taken on their credit applications and requires that credit decisions be made based on objective criteria rather than discriminatory practices. Understanding the relevance of ECOA is crucial for Mortgage Loan Originators because it highlights the legal responsibilities they have in treating all customers fairly and equally throughout the lending process. Familiarity with these regulations helps MLOs avoid violations that could result in serious penalties and contributes to the overall integrity of the lending industry. The other options refer to different regulations: HMDA relates to the Home Mortgage Disclosure Act, RESPA stands for the Real Estate Settlement Procedures Act, and TILA refers to the Truth in Lending Act, which all have distinct purposes and requirements separate from those of Regulation B.

10. Which of the following statements about loan estimates is true?

A. They can change at any time without notice.

B. They must be provided within 5 days of loan application.

C. They are optional for certain loans.

D. They do not require itemized fees.

The statement that loan estimates must be provided within 5 days of loan application is accurate. The Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA) under the integrated disclosures mandate that lenders deliver a loan estimate to borrowers promptly, ensuring that consumers have the necessary information about the costs and terms of their loan options. This requirement helps consumers make informed decisions and understand the financial implications of their loan agreements. Providing a loan estimate within five days of the application is crucial because it establishes a clear timeline for both the lender and the borrower. This timeframe ensures that the borrower can adequately assess the offer and compare it with other loan options before proceeding, promoting transparency and informed decision-making in the mortgage process. In contrast, other options either misrepresent the rules governing loan estimates or suggest flexibility that does not exist within the regulations. For instance, loan estimates cannot change arbitrarily without notice, they are not optional for certain loans, and they must itemize fees to provide a detailed understanding of the costs involved in securing the loan.