National and UST Mortgage 1 Practice Exam (Sample)

Study Guide

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Questions

1. **The penal sum of a required surety bond for a loan originator must reflect:**
   - **A. A. The dollar amount of loans originated**
   - **B. B. A flat-rate amount determined by each state**
   - **C. C. The number of loans originated**
   - **D. D. The originator's years of professional experience**

2. **Under Regulation X, the term "loan originator" refers to which of the following roles?**
   - **A. Loan processor**
   - **B. Mortgage broker only**
   - **C. Mortgage broker or lender**
   - **D. Mortgage lender only**

3. **What is a home equity line of credit (HELOC)?**
   - **A. A revolving line of credit secured by the equity in a borrower's home**
   - **B. A fixed-rate loan issued based on the home's market value**
   - **C. A type of mortgage that requires no down payment**
   - **D. A loan that is used specifically for home improvement projects**

4. **Under the S.A.F.E. Act, what is a responsibility that is NOT required of a licensed loan originator?**
   - **A. Not withholding or destroying records**
   - **B. Making records available to borrowers**
   - **C. Permitting interviews by state regulators**
   - **D. Making records available to the state regulator**

5. **When is PMI typically required?**
   - **A. When the down payment is less than 10% of the home's value**
   - **B. When the down payment is less than 15% of the home's value**
   - **C. When the down payment is less than 20% of the home's value**
   - **D. When the down payment is less than 25% of the home's value**

6. What is the name of Freddie Mac's automated underwriting system?

A. Desktop Originator

B. Underwriter Assistant

C. Loan Product Advisor

D. AUS

7. What role does the FHA play with respect to its loan programs?

A. Guarantees the loans to protect lenders

B. Acts as the lender

C. Issues private mortgage insurance

D. Insures the loans to protect lenders

8. Which of the following is NOT considered an immediate family member for the purposes of mortgage loan originators?

A. Stepparent

B. Aunt

C. Adopted sibling

D. Grandparent

9. A 180/360 loan is classified as which type of mortgage?

A. Adjustable-rate

B. Pay-option

C. Hybrid

D. Balloon

10. What is the purpose of the Home Mortgage Disclosure Act (HMDA)?

A. To limit lending practices in high-risk neighborhoods

B. To provide public information on how financial institutions serve housing needs

C. To regulate interest rates on mortgage loans

D. To require disclosures for all housing-related insurance policies

Answers

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

Explanations

1. The penal sum of a required surety bond for a loan originator must reflect:

A. A. The dollar amount of loans originated

B. B. A flat-rate amount determined by each state

C. C. The number of loans originated

D. D. The originator's years of professional experience

The correct answer highlights that the penal sum of a required surety bond for a loan originator must reflect the dollar amount of loans originated. This is essential because surety bonds are designed to protect consumers and the general public from potential financial losses due to the misdeeds of the loan originator. By tying the bond amount to the dollar value of loans originated, it ensures that the bond amount is commensurate with the financial responsibility and the volume of business the loan originator handles. Should a default occur, the penal sum provides a clear financial metric that represents the potential exposure to risk based on the loan originator's volume. This requirement serves to encourage responsible lending practices and provides a safety net for consumers and stakeholders involved in the lending process.

2. Under Regulation X, the term "loan originator" refers to which of the following roles?

A. Loan processor

B. Mortgage broker only

C. Mortgage broker or lender

D. Mortgage lender only

The term "loan originator" under Regulation X encompasses both mortgage brokers and lenders. This classification is crucial as it establishes who is involved in the origination of a loan and ensures compliance with various regulations designed to protect consumers. By recognizing both roles, Regulation X aims to provide clearer guidelines regarding disclosures, qualification standards, and other responsibilities associated with the lending process. Mortgage brokers typically facilitate the loan origination process by connecting borrowers with lenders, while lenders are the entities that actually provide the funds for the loan. Emphasizing the inclusion of both mortgage brokers and lenders acknowledges the collaborative nature of the mortgage industry, where different professionals work together to bring a loan from application to funding. Understanding this classification helps ensure that all parties involved in origination meet the necessary regulatory requirements to safeguard consumer interests.

3. What is a home equity line of credit (HELOC)?

A. A revolving line of credit secured by the equity in a borrower’s home

B. A fixed-rate loan issued based on the home’s market value

C. A type of mortgage that requires no down payment

D. A loan that is used specifically for home improvement projects

A home equity line of credit (HELOC) is best defined as a revolving line of credit secured by the equity in a borrower’s home. This means that the amount you can borrow is based on the value of your home minus any outstanding mortgage balances. With a HELOC, homeowners have the flexibility to access funds as needed, up to a certain limit, and they only pay interest on the amount they actually use, rather than the total credit limit. This feature allows for ongoing borrowing and repayment, making it a versatile financial tool for homeowners who want to leverage the value of their property. In contrast, the other options provide definitions that do not accurately depict a HELOC. A fixed-rate loan issued based on the home’s market value refers to a conventional mortgage, which is more structured and involves a predetermined repayment schedule. A type of mortgage that requires no down payment is typically associated with specific loan programs, such as VA loans, and does not encompass the revolving credit nature of a HELOC. Lastly, while HELOCs can certainly be used for home improvement projects among other purposes like debt consolidation or education expenses, they are not limited to that specific use. Therefore, the description of a HELOC as a revolving line of credit secured by home equity

4. Under the S.A.F.E. Act, what is a responsibility that is NOT required of a licensed loan originator?

A. Not withholding or destroying records

B. Making records available to borrowers

C. Permitting interviews by state regulators

D. Making records available to the state regulator

The responsibility that is not required of a licensed loan originator under the S.A.F.E. Act is making records available to borrowers. This is because while licensed loan originators are obliged to comply with regulations concerning record retention and oversight by state regulators, there isn't a specific requirement that mandates them to provide all records directly to borrowers. The other responsibilities highlighted are integral to the transparency and accountability of loan originators in their professional conduct. For instance, not withholding or destroying records is crucial for maintaining accurate and complete documentation of transactions, which helps ensure both compliance and the protection of consumer rights. Similarly, permitting interviews by state regulators and making records available to them is essential for allowing oversight and ensuring regulatory adherence within the mortgage industry. This safeguards the integrity of the lending process and promotes consumer trust.

5. When is PMI typically required?

A. When the down payment is less than 10% of the home's value

B. When the down payment is less than 15% of the home's value

C. When the down payment is less than 20% of the home's value

D. When the down payment is less than 25% of the home's value

Private Mortgage Insurance (PMI) is typically required when the down payment on a home is less than 20% of the home's value. Lenders implement PMI as a risk mitigation tool because a lower down payment suggests a higher risk of default. When a borrower makes a down payment of less than 20%, the lender views this as a situation where the borrower has less equity in the home. By requiring PMI, the lender ensures that they have a form of protection in case the borrower defaults on the loan. The insurance covers a portion of the lender's potential losses, making it possible for buyers to purchase homes with smaller down payments. This policy aligns with standard mortgage lending practices, as it helps facilitate homeownership while managing risk for financial institutions. Thus, the requirement for PMI when the down payment is below 20% is a critical concept for potential homeowners and those involved in the mortgage industry.

6. What is the name of Freddie Mac's automated underwriting system?

A. Desktop Originator

B. Underwriter Assistant

C. Loan Product Advisor

D. AUS

Freddie Mac's automated underwriting system is known as Loan Product Advisor. This system is designed to help lenders assess borrower creditworthiness and determine eligibility for various mortgage products more efficiently. Loan Product Advisor provides real-time underwriting decisions and reduces the amount of time needed for loan processing, ultimately streamlining the mortgage origination process. By leveraging technology, it supports lenders in making informed decisions while minimizing risk and enhancing the customer experience. This system plays a critical role in modern mortgage lending, especially in ensuring compliance with Freddie Mac's guidelines and optimizing loan performance.

7. What role does the FHA play with respect to its loan programs?

A. Guarantees the loans to protect lenders

B. Acts as the lender

C. Issues private mortgage insurance

D. Insures the loans to protect lenders

The Federal Housing Administration (FHA) plays a crucial role in the housing finance market, primarily by insuring loans to protect lenders against losses. This means that when a borrower defaults on an FHA-insured loan, the government will cover a portion of the loss incurred by the lender. This insurance encourages lenders to offer loans to borrowers who may not have traditional qualifications, such as lower credit scores or smaller down payments. By insuring these loans, the FHA helps increase access to homeownership for a broader segment of the population, ultimately contributing to the stability of the housing market. The other options involve misconceptions about the FHA's functions; for instance, the FHA does not act as a lender itself but rather facilitates loan programs by providing insurance. It does not provide private mortgage insurance, which is usually offered by private companies, and while it guarantees loans, it primarily does so through its insurance mechanism, not in a guarantee capacity. Understanding the FHA's role as an insuring entity is essential in grasping how it impacts the lending landscape and supports home buyers.

8. Which of the following is NOT considered an immediate family member for the purposes of mortgage loan originators?

A. Stepparent

B. Aunt

C. Adopted sibling

D. Grandparent

For the purposes of mortgage loan originators, an immediate family member typically includes those individuals who are directly related by blood or marriage. This includes parents, siblings, children, spouses, and stepparents. In this context, the term “immediate family” does not extend to more distant relations like aunts, uncles, or grandparents. Choosing the option that is not considered an immediate family member correctly identifies the aunt, as she is a more distant relative compared to the other options. Stepparents, adopted siblings, and grandparents are generally recognized as part of the immediate family due to their close familial ties. Thus, this understanding clarifies why the aunt does not fall under the definition of immediate family members for mortgage loan originator purposes.

9. A 180/360 loan is classified as which type of mortgage?

- A. Adjustable-rate
- B. Pay-option
- C. Hybrid
- **D. Balloon**

A 180/360 loan is classified as a balloon mortgage because it has a short amortization period relative to the long term of the loan. Specifically, it indicates that the borrower makes monthly payments based on a 30-year amortization schedule for the first 180 months (or 15 years). However, after this period, the entire remaining principal balance becomes due in a lump sum payment. This structure allows for lower initial monthly payments compared to a fully amortized mortgage, but it requires the borrower to be prepared for the balloon payment at the end of the term, making it crucial to have a clear repayment or refinancing strategy in place. This classification is distinct from adjustable-rate or pay-option mortgages, which involve different structures concerning the interest rate and payment calculations. A hybrid mortgage typically refers to loans that have both fixed and adjustable features, which does not apply in this case.

10. What is the purpose of the Home Mortgage Disclosure Act (HMDA)?

- A. To limit lending practices in high-risk neighborhoods
- **B. To provide public information on how financial institutions serve housing needs**
- C. To regulate interest rates on mortgage loans
- D. To require disclosures for all housing-related insurance policies

The purpose of the Home Mortgage Disclosure Act (HMDA) is to provide public information on how financial institutions serve housing needs. The act was enacted to ensure transparency in lending practices and to empower consumers by providing access to data about mortgage lending in their communities. This data helps regulators and the public analyze whether lenders are serving the housing needs of their communities, particularly regarding access to credit and fair lending practices. By disclosing information about loan applications, approvals, and denials, HMDA aims to shine a light on potential lending discrimination and assess the availability of mortgage credit in different geographic areas. This encourages accountability and helps policymakers and community organizations address any disparities in lending practices.