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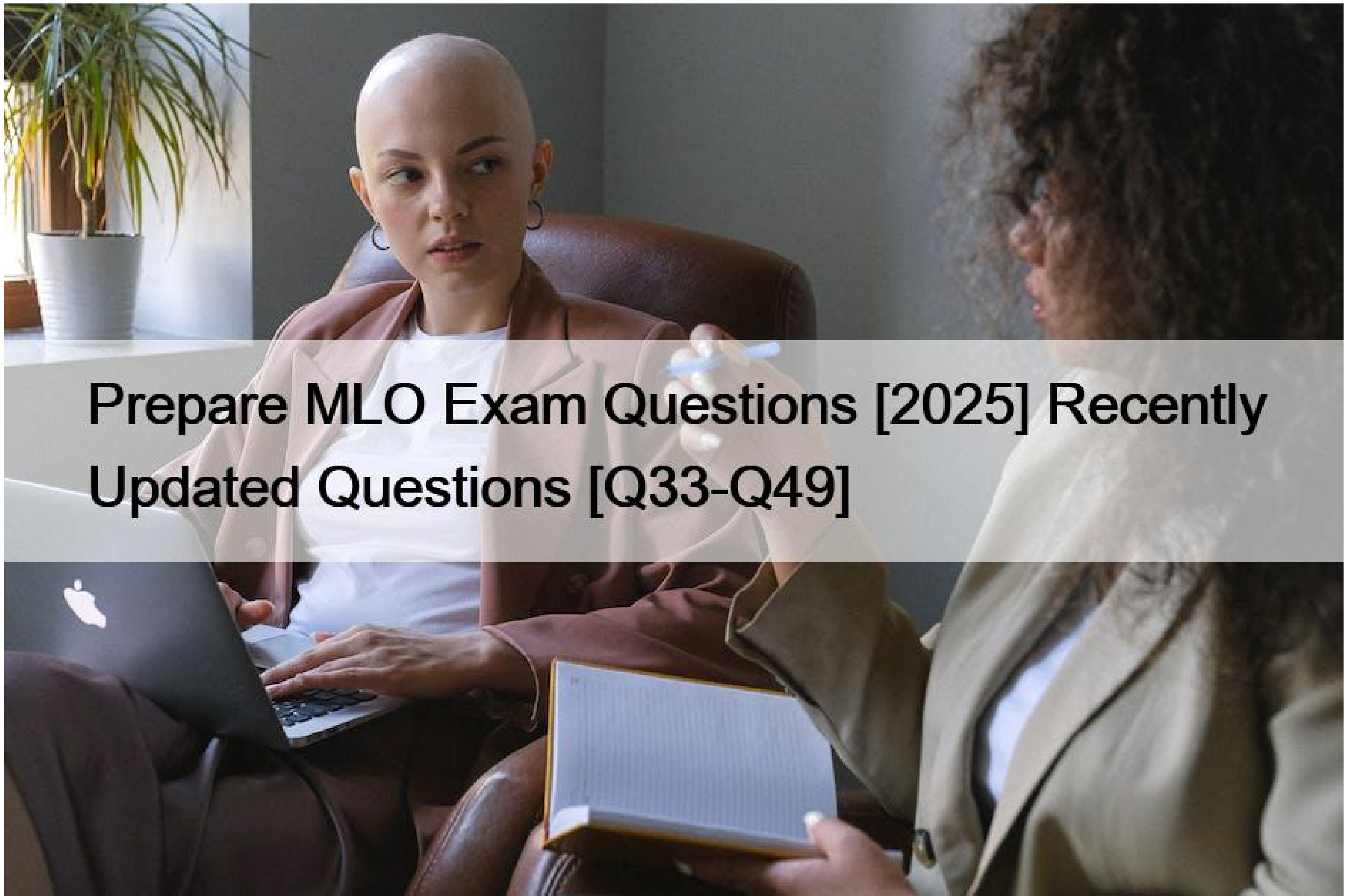

Prepare MLO Exam Questions [2025 Recently Updated Questions Give push to your success with MLO exam questions
NO.33 Which of the following entities is the primary regulatory authority for state-licensed, non-depository lenders?
* NMLS
* The Federal Trade Commission
* A state regulator
* The Conference of State Bank Supervisors

For state-licensed, non-depository lenders, the primary regulatory authority is the state regulator in the jurisdiction where the lender operates. Each state has its own agency or department responsible for overseeing licensing, compliance, and enforcement of mortgage laws for non-depository institutions.

* The NMLS (A) is the system used to manage licenses but is not a regulatory authority.

* The Federal Trade Commission (B) oversees federal consumer protection laws but is not the primary regulator for state-licensed lenders.

* The Conference of State Bank Supervisors (CSBS) (D) helps coordinate state regulation but does not directly regulate individual lenders.

References:

* SAFE Act, 12 USC §5101

* NMLS and State Regulator Guidelines

NO.34 According to the Truth in Lending Act (TILA), a dwelling includes which of the following?
* An unimproved lot
* A six-unit apartment complex
* An individual condominium unit
* A timeshare

Under the Truth in Lending Act (TILA), a dwelling is defined as any residential structure that includes one to four units, such as an individual condominium unit, single-family home, or townhouse. This definition also includes mobile homes or manufactured homes, as long as they are used as residences.

* Unimproved lots (A) are not considered dwellings because they lack a residential structure.

* A six-unit apartment complex (B) exceeds the limit of four units for a dwelling under TILA.

* Timeshares (D) are typically considered non-residential and do not meet the TILA definition of a dwelling.

References:

* Truth in Lending Act (TILA), 12 CFR §1026.2(a)(19)

* CFPB Guidelines on TILA’s definition of a dwelling

NO.35 Which of the following loans is subject to right of rescission?
* A purchase loan secured by a rental home
* A refinance loan secured by a vacation home
* A cash-out refinance loan on a primary residence
* A rate and term refinance loan through the same creditor

The right of rescission is a provision under TILA (Truth in Lending Act) that gives borrowers the right to cancel certain types of loans within three business days after closing. This right applies specifically to refinance transactions on a borrower’s primary residence, where they are taking cash out or refinancing their mortgage.

* Cash-out refinances on a primary residence (C) are subject to the right of rescission because they involve the homeowner’s primary residence.

* Purchase loans (A) and loans secured by vacation homes (B) or other investment properties are not subject to this rule.

* Even if the same creditor is refinancing the loan (Option D), the right of rescission still applies if it’s a refinance of the primary residence.

References:

* Truth in Lending Act (TILA) Section 125

* Regulation Z, 12 CFR §1026.23 on the right of rescission

NO.36 Which of the following acts provides a state licensing and regulatory agency to investigate and examine a mortgage company?
* SAFE Act
* Truth in Lending Act (TILA)
* Real Estate Settlement Procedures Act (RESPA)
* Home Ownership and Equity Protection Act (HOEPA)
The SAFE Act (Secure and Fair Enforcement for Mortgage Licensing Act) establishes federal and state licensing standards for mortgage loan originators (MLOs) and mandates that each state creates a licensing and regulatory agency to oversee mortgage companies. This agency is responsible for investigating, examining, and enforcing compliance with mortgage regulations. The act aims to ensure that mortgage companies and MLOs operate with transparency, competency, and accountability.

* The SAFE Act gives regulatory bodies the authority to conduct background checks, examinations, and audits of licensed mortgage companies.

Other Acts:

* TILA and RESPA focus on disclosure requirements and fair lending practices but do not specifically regulate state licensing and examinations.

* HOEPA regulates high-cost loans and predatory lending practices, not licensing.

References:

* SAFE Act, 12 USC §5101

* NMLS Licensing and Registration Requirements

NO.37 Illegal fee splitting occurs when:
* two service providers split a fee.
* wages are split by two employees.
* fees are split between lender and broker.
* three companies split a fee but one did no work.
Illegal fee splitting occurs when a fee is divided among multiple parties and at least one party does not perform any actual work or service to earn the fee. Under RESPA (Real Estate Settlement Procedures Act), Section 8 prohibits fee splitting, kickbacks, and unearned fees in any federally related mortgage loan transaction. If three companies split a fee, but one company did no work, this would constitute an illegal fee split.

* Fee splitting (A, C) can be legal if all parties involved provide legitimate services.

References:

* RESPA Section 8 – Prohibition on fee splitting and unearned fees

* CFPB RESPA Guidelines

NO.38 Which of the following is not a primary function for compensation undertaken by a mortgage loan originator on an FHA loan?
* Taking an application
* Offering or negotiating credit terms
* Assisting a consumer in applying for credit

* Performing real estate brokerage activities
Real estate brokerage activities are not a primary function of a mortgage loan originator (MLO). The MLO’s primary role is to assist consumers in taking an application (A), offering or negotiating credit terms (B), and helping consumers apply for credit (C).

* Real estate brokerage activities, such as negotiating real estate transactions, are separate from the loan origination process and require different licensing and qualifications.

References:

* SAFE Act, 12 USC §5101

* NMLS MLO Licensing Guidelines

NO.39 Which of the following scenarios describes an assumable loan?
* A borrower has an option to take out a second mortgage
* A borrower has an option to choose a loan servicer.
* A purchaser of a property may be able to take over the existing loan payments.
* A loan holder can sell the loan.
An assumable loan is a loan in which a purchaser of a property has the option to take over the existing loan payments under the same terms as the original borrower. This can happen with certain types of loans, such as FHA or VA loans, which allow the buyer to assume the mortgage, potentially at a more favorable interest rate than current market rates.

* Options like taking out a second mortgage (A), choosing a loan servicer (B), or selling the loan (D) do not describe assumable loans.

References:

* FHA Guidelines on Assumable Loans

* VA Loan Assumption Guidelines

NO.40 A borrower’s monthly debt-to-income ratio is calculated by taking the:
* borrower’s gross monthly housing expense divided by the principal, interest, and appraised value.
* eligible total monthly debt obligations, including the monthly housing expense, divided by the borrower’s gross monthly income.
* eligible total monthly debt obligations for trade lines greater than 12 months multiplied by the borrower’s net monthly income.

D eligible total monthly debt obligations excluding the monthly housing expense divided by the borrower’s net monthly income
The debt-to-income (DTI) ratio is a key metric used by lenders to assess a borrower’s ability to manage monthly payments and repay a mortgage. It is calculated by dividing the borrower’s total monthly debt obligations, including:

* Monthly housing expenses (principal, interest, taxes, and insurance, also known as PITI).

* Any other recurring debt obligations (car loans, student loans, credit card payments, etc.).

This total is divided by the borrower’s gross monthly income (before taxes and deductions). This calculation helps determine whether the borrower meets lending standards, with most lenders preferring a DTI ratio below 43% for qualified mortgages.

References:

* Fannie Mae and Freddie Mac guidelines on debt-to-income ratio

* CFPB Qualified Mortgage Rules

NO.41 Which of the following must be included in advertisements displayed by mortgage loan originators (MLOs) on their social media pages for mortgage services including payment amounts?
* The APR
* The MLO’s personal website
* The MLO’s business address
* The number of days that the rate is available
Under Regulation Z (TILA), when mortgage loan originators (MLOs) advertise mortgage services, including payment amounts, they must disclose the Annual Percentage Rate (APR). The APR reflects the total cost of the loan, including interest and certain fees, and provides a clear picture of the loan’s true cost over time.

* Failure to include the APR in an advertisement that mentions payment amounts, interest rates, or other specific loan terms is considered a violation of TILA’s advertising requirements.

* Other details (B, C, D), such as the MLO’s website or the number of days the rate is available, are not mandatory in all advertisements, but the APR is required.

References:

* Truth in Lending Act (TILA), 12 CFR Part 1026 (Regulation Z)

* CFPB Advertising Rules for Mortgage Services

NO.42 What is the minimum amount of flood insurance a lender must require on a residential building located in a special flood hazard area?
* $50,000 for residential property structures
* $150,000 for residential property structures
* $250,000 for residential property structures
* $350,000 for residential property structures
The minimum amount of flood insurance required by lenders for a residential building located in a Special Flood Hazard Area (SFHA) is the lesser of:

* 100% of the replacement cost of the structure, or

* The maximum available under the National Flood Insurance Program (NFIP), which is $250,000 for residential property structures.

This requirement ensures that the property is adequately covered in case of flood damage.

References:

* National Flood Insurance Program (NFIP) Guidelines

* Flood Disaster Protection Act (FDPA)

NO.43 According to Federal Reserve Regulation Z, which of the following fees is a finance charge in a residential mortgage transaction?
* Notary
* Interest
* Credit report
* Title Insurance

Under Federal Reserve Regulation Z, which implements the Truth in Lending Act (TILA), interest is classified as a finance charge because it represents the cost of borrowing the funds over the life of the loan.

Finance charges include any fee that a borrower pays as a condition of obtaining the loan, such as interest, points, and certain fees.

* Notary fees (A), credit report fees (C), and title insurance (D) are not considered finance charges because they are third-party fees not directly related to the cost of borrowing.

References:

* Truth in Lending Act (TILA), 12 CFR §1026.4

* CFPB Regulation Z Guidelines

NO.44 Which of the following items is a liquid asset?
* Antique jewelry
* Publicly traded stocks
* Net worth of a business
* An automobile owned free and clear

Publicly traded stocks are considered liquid assets because they can be easily converted to cash through a sale in a public stock market. Liquid assets are those that can be quickly sold or accessed with minimal loss of value.

* Antique jewelry (A), net worth of a business (C), and an automobile (D) are not considered liquid assets because they are harder to convert into cash quickly without losing value.

References:

* Fannie Mae and Freddie Mac guidelines on liquid assets

* CFPB Mortgage Qualifying Standards

NO.45 During the loan application process, which of the following documents specifies the time period that a mortgage lender agrees to hold the mortgage interest rate at a certain percentage?
* Loan application
* Preapproval letter
* Closing Disclosure
* Rate lock agreement

A rate lock agreement is the document that specifies the time period during which a mortgage lender agrees to hold the interest rate at a certain percentage for the borrower. It guarantees that the rate will not change, even if market interest rates fluctuate, as long as the loan closes within the agreed-upon timeframe.

* The loan application (A) initiates the mortgage process, but it does not secure the interest rate.

* A preapproval letter (B) gives a preliminary loan approval but does not lock the rate.

* The Closing Disclosure (C) provides final loan terms but does not set the rate lock.

References:

* Fannie Mae and Freddie Mac rate lock policies

* CFPB Guidelines on rate lock agreements

NO.46 Which of the following is an example of a non-fluctuating income source?
* Salaried W-2 position
* Self-employed income
* Commission-based W-2 income
* Part-time work with irregular hours
A salaried W-2 position is an example of non-fluctuating income because the borrower receives a consistent, fixed salary each pay period. This type of income is easy to verify and predict, making it ideal for mortgage qualification.

Other types of fluctuating income:

* Self-employed income (B) and commission-based income (C) vary based on the nature of work and can fluctuate month to month.

* Part-time work with irregular hours (D) also fluctuates due to varying work hours, making it inconsistent.

References:

* Fannie Mae Selling Guide for income verification

* Freddie Mac’s Loan Product Advisor for employment income documentation

NO.47 Which of the following applicant characteristics is legally permitted to be considered in evaluating credit risk?
* Whether the applicant seems likely to have children
* Whether the applicant has a phone number listing in their name
* Whether the applicant’s age makes them ineligible for credit-related insurance
* Whether the alimony payments the applicant relies on for income are likely to continue and to be consistently made
When evaluating credit risk, lenders are legally permitted to consider whether alimony payments that the applicant relies on for income are likely to continue and be consistently made. Lenders need to assess the reliability of income sources, and documented alimony that is expected to continue is a valid consideration under ECOA (Equal Credit Opportunity Act) guidelines.

* Factors like the applicant’s likelihood of having children (A), phone listing (B), and age (C) are not permissible criteria for evaluating creditworthiness under ECOA, as these would constitute discrimination.

References:

* Equal Credit Opportunity Act (ECOA), 15 U.S.C. §1691

* CFPB ECOA Guidelines

NO.48 Which of the following activities is an example of redlining in mortgage lending?
* Ensuring that all creditworthy borrowers are afforded equal treatment when applying for a mortgage loan
* The mortgage loan originator convincing the underwriter to move their loan file to the front of the line or “redline”

it
* The act of the mortgage lender putting a “red line” under the borrower’s name in a file to indicate they are a substandard applicant
* The systematic denial of various services to residents of specific, often racially associated, neighborhoods or communities, either explicitly or through the selective raising of prices
Redlining is a discriminatory practice in mortgage lending where certain neighborhoods, often those predominantly inhabited by minority groups, are systematically denied access to mortgages, insurance, or other financial services. Lenders would use literal red lines on maps to designate these areas as high-risk or undesirable, refusing to offer loans or offering them at inflated interest rates.

* Redlining is a violation of fair lending laws such as the Fair Housing Act (FHA) and Equal Credit Opportunity Act (ECOA). Both of these federal laws prohibit discrimination based on race, color, national origin, religion, sex, family status, or disability in housing and credit transactions.

* This practice has historically contributed to racial segregation and economic inequality in the U.S., as minority groups were systematically excluded from access to homeownership and wealth-building opportunities.

References:

* Home Mortgage Disclosure Act (HMDA)

* Fair Housing Act (FHA)

* Equal Credit Opportunity Act (ECOA)

NO.49 An individual who is a loan processor or underwriter must maintain a state originator license if they:
* perform clerical duties for a mortgage lender as a supervised employee
* are not in communication with the consumer to obtain mortgage loan information.
* are an independent contractor and collect, receive or distribute information in connection with making a credit decision.
* are an employee of a loan processing or underwriting company that supports a mortgage broker/lender and only perform supervised clerical duties.
An individual who is an independent contractor and performs loan processing or underwriting activities must maintain a state originator license if they collect, receive, or distribute information in connection with making a credit decision. This is because independent contractors are not considered supervised employees, and their work directly impacts the loan approval process.

* In contrast, employees of a mortgage lender who perform clerical duties (A) under supervision do not need a state license, nor do those who do not interact with consumers (B).

References:

* SAFE Act, 12 USC §5101

* NMLS Licensing Guidelines for loan processors and underwriters

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