

# 8-Hour SAFE Comprehensive: Staying Compliant with Mortgage Law

## Activity Answer Key

### Chapter 1

#### Exercise 1.1: Knowledge Check (Page 5)

1. The URLA uses questions designed to evaluate all of the following EXCEPT a borrower's
  - A. assets.
  - B. credit.
  - C. employment.
  - D. lifestyle.**

*The correct answer is D. - The URLA does not ask questions about the borrower's personal activities or lifestyle.*

2. Data transparency helps to ensure that financial institutions are not engaging in discriminatory lending or failing to meet the credit needs of the community.
  - A. true**
  - B. false

*The correct answer is A. - The HMDA allows regulatory agencies to determine if a financial institution is meeting the credit needs of the community that it serves.*

3. Effective January 1, 2018, the agency that will receive HMDA data will be the FTC.
  - A. true
  - B. false**

*The correct answer is B. - Beginning January 1, 2018, mortgage entities will record HMDA information with the CFPB.*

4. A non-depository entity must report HMDA covered loan data beginning in 2018 if how many covered, closed-end transactions have been originated in each of the prior two years?
  - A. 10
  - B. 20
  - C. 25**
  - D. 35

*The correct answer is C. - The requirement to report HMDA data is based on originated loans, not closed loans. The requirement is 25 covered loans originated in the previous two years.*

#### Exercise 1.2: Knowledge Check (Page 8)

1. New LAR report data points in 2018 will be expanded to include a borrower and co-borrower's age, credit score, debt-to-income ratios, and combined loan-to-value ratios.
  - A. true**
  - B. false

*The correct answer is A. - New data points include the borrower and co-borrower's age, credit score, debt-to-income ratios, and loan's combined loan-to-value.*

2. During or after 2018, which of the following will NOT apply per the HMDA Rule requirements for the collection and reporting of information regarding an applicant's ethnicity, race, and sex?

- A. Covered institutions will be required to use the disaggregated subcategories based on visual observation or surname.
- B. Covered institutions must permit applicants to self-identify using disaggregated ethnic and racial subcategories.
- C. Covered institutions will report disaggregated information applicants provide.
- D. Covered institutions will report whether or not it collected the information on the basis of visual observation or surname.

*The correct answer is A. - During or after 2018, the HMDA Rule will not require or permit covered institutions to use the disaggregated subcategories when identifying the applicant's ethnicity and race based on visual observation or surname.*

### Exercise 1.3: Knowledge Check (Page 16)

1. What section of the 2018 URLA reports information about the race, sex, and ethnicity of a borrower?

- A. Section 1: Borrower Information
- B. Section 5: Declarations
- C. Section 7: Demographic Information
- D. Section 10: Information for Government Monitoring

*The correct answer is C. - The 2018 URLA collects the information about the race, sex, and ethnicity of a borrower in Section 7: Demographic Information.*

2. One method to inquire about a borrower's marital status is to ask if she is divorced.

- A. true
- B. false

*The correct answer is B. - According to Regulation B, an MLO is prohibited from asking any borrower if she is divorced, single, or widowed.*

3. New to the 2018 URLA is the requirement for an applicant to disclose a short sale in the past seven years.

- A. true
- B. false

*The correct answer is A. - A new question within the 2018 loan application asks if the borrower has had a short sale in the past seven (7) years.*

4. Which of the following types of bankruptcy will NOT appear on a borrower's personal credit report?

- A. Chapter 7
- B. Chapter 11
- C. Chapter 12
- D. Chapter 13

*The correct answer is B. - Chapter 11 is a business only reorganization of the business's debts and assets. Chapter 7 is a liquidation for business or personal debtors. Chapter 12 is for family fishing or farming, and Chapter 13 is a personal reorganization.*

#### **Exercise 1.4: Knowledge Check (Page 17)**

**1. If joint borrowers indicate they are not married, they must complete an additional form called the Unmarried Addendum.**

**A. true**

**B. false**

*The correct answer is A. - If joint borrowers indicate they are not married, they must complete the answers listed in the Unmarried Addendum.*

**2. Lenders consider a borrower self-employed if he has an ownership interest in a business of**

**A. 10% or more.**

**B. 25% or more.**

**C. 30% or more.**

**D. 35% or more.**

*The correct answer is B. - Lenders consider a borrower self-employed if he has an ownership interest in a business of 25% or more. This will trigger the requirement to provide business tax returns in addition to the borrower's personal tax returns.*

**3. If a minister receives a parsonage allowance, this allowance is taxable by the IRS.**

**A. true**

**B. false**

*The correct answer is B. - A parsonage or housing allowance for a minister is considered tax-exempt income by the Internal Revenue Service. It is subject to self-employment taxation, however.*

#### **Exercise 1.5: Apply Your Knowledge (Page 23)**

Consider the role of the correspondent lender who underwrites a mortgage loan to the guidelines of the investor who will purchase the closed loan from the broker or correspondent.

**Who collects, records, and reports the HMDA information?** Discuss your answer. - Correspondent lender will report that a loan was originated and that a loan was closed, the investor that purchases the will report it as a loan purchase.

#### **Case Study: Understanding HMDA (Page 25-27)**

Listed below are scenarios from the Home Mortgage Disclosure (Regulation C) *Small Entity Compliance Guide*, pages 36-37. These scenarios include Ficus Mortgage Company and Pine Bank. Discuss the scenarios and determine if your organization would be required to report HMDA data or if the investor would be required to report this data.

1. Ficus Mortgage Company receives an application for a covered loan from an applicant and forwards that application to Pine Bank, which reviews and approves the application prior to closing. The loan closes in Ficus Mortgage Company's name. Pine Bank purchases the loan from Ficus Mortgage Company after closing. Pine Bank is not acting as Ficus Mortgage Company's agent when it reviews and approves the application.

**a) Who originated the loan?**

- Because Pine Bank made the credit decision prior to closing, Pine Bank reports the transaction as an originated covered loan, not as a purchased covered loan.

**b) Who must report the covered loan information to the CFPB?**

- Pine Bank must report the covered loan. Ficus Mortgage Company does not report the transaction.

**c) What criteria, in this example, determines the requirement for reporting the information?**

- In this case, the criteria for which entity reports the information is who approves the loan prior to closing. Even though Ficus Mortgage Company originated the loan, the approval was issued by Pine Bank.

2. Ficus Mortgage Company receives an application for a covered loan from an applicant and forwards that application to Pine Bank. Pine Bank reviews and denies the application before the loan would have closed. Pine Bank is not acting as Ficus Mortgage Company's agent when it reviews and denies the application.

**a) Who makes the credit decision, Ficus or Pine**

- Pine Bank made the decision to deny the mortgage request before it could close. Because Pine Bank makes the credit decision, Pine Bank reports the application as denied.

**b) Who reports the covered loan and the credit decision?**

- Because Pine Bank makes the credit decision, Pine Bank reports the application as denied.

3. Under the same facts as in Question #2, the application is withdrawn before Pine Bank makes a credit decision. Pine Bank reports the application as *withdrawn*, and Ficus Mortgage Company does not report the application.

**a) Why is Ficus Mortgage Company not required to report in either of the two scenarios?**

- Ficus Mortgage Company did not make the credit decision and is not required to report the transaction. If the application has been forwarded to a creditor for a decision and the application is withdrawn by the applicant prior to a credit decision, then the mortgage entity that has the application at the time of withdrawal must make the report.

4. Ficus Mortgage Company receives an application for a covered loan from an applicant and approves the application. Ficus Mortgage Company closes the loan in its name. Ficus Mortgage Company is not acting as Pine Bank's agent when it approves the application or closes the loan. Pine Bank does not review the application before closing. Pine Bank purchases the covered loan from Ficus Mortgage Company. Ficus Mortgage Company reports the loan as an originated covered loan. Pine Bank reports the loan as a purchased covered loan.

**a) Why is Ficus Mortgage Company the reporting entity?**

- Ficus Mortgage Company approved the application and closed it in its name. This requires Ficus Mortgage Company to report the loan as an originated covered loan.

**b) In this scenario, Ficus Mortgage Company is an example of what type of loan origination channel?**

*- Because Ficus Mortgage Company originates the loan, approves it, and closes the loan in the name of Ficus Mortgage, the loan origination channel is a correspondent relationship between Ficus Mortgage Company as the originator, and Pine Bank is the purchaser of the closed loan.*

5. Pine Bank reviews an application and makes a credit decision to approve a covered loan using the underwriting criteria provided by Ficus Mortgage Company. Pine Bank is not acting as Ficus Mortgage Company's agent, and is not acting on behalf of Ficus Mortgage Company. Ficus Mortgage Company reviews the application and makes a credit decision before closing.

**a) Why is Pine Bank the reporting entity?**

**- Pine Bank reports the application or, if the application results in a covered loan, it reports the loan as an originated covered loan.**

**b) Pine Bank is an example of what type of loan origination channel?**

**- Pine Bank is a correspondent originator and reports the loan as a covered loan application. If the application results in a covered loan and Ficus Mortgage Company purchases it after closing, Ficus Mortgage Company reports the loan as a purchased covered loan.**

6. Ficus Mortgage Company receives an application for a covered loan and forwards it to Aspen Bank and Pine Bank. Ficus Mortgage Company makes a credit decision, acting as Elm Bank's agent, and approves the application. Pine Bank makes a credit decision and denies the application. Aspen Bank makes a credit decision approving the application. The applicant does not accept the loan from Elm Bank. The applicant accepts the loan from Aspen Bank and credit is extended.

**a) Ficus Mortgage Company is acting as a(n)**

*- Ficus Mortgage Company does not report the application because Ficus is performing as a mortgage broker.*

**b) Aspen Bank and Pine Bank are acting as**

*- The two banks are acting as wholesale lenders by accepting third party originations.*

**c) Ficus Mortgage Company is an agent of \_\_\_\_\_**

*- Ficus Mortgage Company is acting as an agent of Elm Bank.*

**d) Aspen Bank reports the covered loan as \_\_\_\_\_**

*- Aspen Bank reports the loan as an originated covered loan.*

**e) Pine Bank reports the covered loan as \_\_\_\_\_**

*- Pine Bank reports the application as a denied covered loan.*

f) Elm Bank reports the covered loan as \_\_\_\_\_  
- Elm Bank reports the application as approved but not accepted.

g) Ficus Mortgage reports the covered loan as \_\_\_\_\_  
- Ficus Mortgage Company does not report the application because the company did not participate in any credit decision.

**Exercise 1.6: Knowledge Check (Page 31)**

1. To comply with the Anti-Money Laundering Act, a non-depository lender must complete the following activities EXCEPT
- A. create a company AML policy manual.
  - B. designate a person to assume the role of compliance officer.
  - C. perform the required independent audit to ensure compliance and conformity with the AML.
  - D. provide training on AML compliance for new and existing employees every five years.

The correct answer is D. - To comply with the Anti-Money Laundering Act, a non-depository lender must have an AML compliance program in place and must provide training on AML compliance at the time of employment and additional training every year after that.

2. The BSA mandates financial institutions must require bank officers to become licensed with FinCEN.
- A. true
  - B. false

The correct answer is B. - The BSA requires a financial institution to have a customer identification policy, to maintain records, and to compare names with government lists. There is no requirement for bank officers to become licensed with FinCEN.

**Exercise 1.7: Knowledge Check (Page 34)**

1. Suspicious activity includes discovering monetary transactions showing an activity or funds serving no legal or business purpose.
- A. true
  - B. false

The correct answer is A. - Showing a transaction's activity or funds serve no legal or business purpose could be considered suspicious activity for a financial institution.

2. Which is NOT likely to be a factor in deciding to investigate further or file an SAR?
- A. the borrower's source of income
  - B. an expired identification document
  - C. identification that appears to have been changed
  - D. multiple users of similar identification

The correct answer is A. - The source of income of the borrower is not one of the factors that determine the decision to investigate or file an SAR with federal officials.

**Chapter 1 Quiz (Page 36-38)**

**1. Data transparency helps to ensure that financial institutions are not engaging in discriminatory lending or**

- A. alternative lending.
- B. cross sale advertising.
- C. failing to meet credit needs of the community.**
- D. requiring unnecessary documentation.

*The correct answer is C. - The HMDA allows regulatory agencies to determine if a financial institution is meeting the credit needs of the community it serves.*

**2. Effective January 1, 2018, the agency that will receive HMDA data will be the**

- A. CFPB.**
- B. CRA.
- C. FFIEC.
- D. FTC.

*The correct answer is A. - Beginning January 1, 2018, mortgage entities will record HMDA information with the CFPB.*

**3. All of the following properties are considered a dwelling with the EXCEPTION of**

- A. apartment buildings.
- B. assisted living for senior citizen properties (if the primary use is residential).
- C. investment properties.
- D. long-term medical care facilities (if the primary use is NOT residential).**

*The correct answer is D. - The CFPB chart defines all of the above as "dwellings" except the long-term care facility if the primary use is not residential.*

**4. In 2018, the loan application data points will be expanded to include a borrower and co-borrower's age, credit score, debt-to-income ratios, and**  
**A. combined loan-to-value ratios.**

- B. the increase in housing expenses expressed as a percentage.
- C. religion.
- D. the spread between the APR and the note rate.

*The correct answer is A. - New data points include the loan's combined loan-to-value. An MLO must never ask the borrower's religion.*

**5. A creditor, who is required to provide HMDA information, must provide all of the following EXCEPT the**

- A. borrower's Social Security number or TIN.**
- B. discount points paid.
- C. total loan costs.
- D. total points and fees paid to the originating entity.

*The correct answer is A. - A borrower's Social Security or TIN number is never disclosed under HMDA reporting, as these numbers do not disclose any of the loan characteristics.*

**6. The URLA includes all of the following components EXCEPT**

- A. lender loan information.
- B. the Married Borrower Addendum.**
- C. required borrower information.
- D. the Unmarried Borrower Addendum.

*The correct answer is B. - There is no Married Borrower Addendum to complete.*

**7. The section of the 2018 URLA that reports information about the race, sex, and ethnicity of all borrowers is**

- A. Section 1: Borrower Information.
- B. Section 5: Declarations.
- C. Section 7: Demographic Information.**
- D. Section 10: Information for Government Monitoring.

*The correct answer is C. - The 2018 URLA collects the information about the race, sex, and ethnicity of a borrower in Section 7: Demographic Information.*

**8. One method to inquire about a borrower's marital status is to ask the borrower if he is**

- A. divorced.
- B. married.**
- C. single.
- D. widowed.

*The correct answer is B. - According to Regulation B, an MLO is prohibited from asking any borrower if he is divorced, single, or widowed.*

**9. If a property is listed as "vacant land," which information would an MLO NOT be required to collect from the borrower?**

- A. hazard insurance**
- B. HOA fees
- C. liens on the subject property
- D. property tax amount

*The correct answer is A. - If a property is vacant land, there is no dwelling to insure. Property taxes, Homeowner's Association fees, and property liens may exist on the vacant land.*

**10. The 2018 URLA requires a bankruptcy to be reported if it has occurred within the past \_\_\_\_ years.**

- A. seven**
- B. ten
- C. fifteen
- D. twenty

*The correct answer is A. - The last question in Section 5b of the 2018 URLA requires the borrower not only to disclose previous bankruptcies in the past seven (7) years, but to also disclose the Chapter of bankruptcy that was filed and discharged.*

**11. New to the 2018 URLA is the requirement for an applicant to disclose**

- A. a bankruptcy in the past eleven years.
- B. a deed in lieu of foreclosure in the past ten years.
- C. a foreclosure in the past ten years.
- D. a short sale in the past seven years.**

*The correct answer is B. - A new question to the 2018 loan application is if the borrower had a short sale in the past seven years.*



**12. Which of the following types of bankruptcy will NOT appear on a borrower's personal credit report?**

- A. Chapter 7
- B. Chapter 11**
- C. Chapter 12
- D. Chapter 13

*The correct answer is B. - Chapter 11 is a business-only reorganization of debts and assets. Chapter 7 is a liquidation for business or personal debtors. Chapter 12 is for family fishing or farming, and Chapter 13 is a personal reorganization.*

**13. If joint borrowers indicate that they are not married, they must complete an additional form called the**

- A. Borrower Information Addendum.
- B. Declarations Addendum.
- C. Financial Information Addendum.
- D. Unmarried Addendum.**

*The correct answer is D. - If joint borrowers indicate that they are unmarried, they must complete the answers listed in the Unmarried Addendum.*

**14. A borrower is considered self-employed if he has an ownership interest of**

- A. 1%.
- B. 5%.
- C. 10%.
- D. 25%.**

*The correct answer is D. - Lenders consider a borrower self-employed if he has an ownership interest in a business that is 25% or greater. This will trigger the requirement to provide business tax returns in addition to the borrower's personal tax returns.*

**15. An allowance that a minister might receive that is NOT taxable is a(n)**

- A. auto allowance.
- B. bonus.
- C. gift.
- D. parsonage allowance.**

*The correct answer is B. - A parsonage (or housing) allowance for a minister is considered tax-exempt income by the Internal Revenue Service. It is subject to self-employment taxation, however.*

**16. If a married borrowing couple share assets, liabilities, and real estate, one borrower will complete the seven-page application and the other borrower will complete the**

- A. Additional Borrower Information Form.**
- B. continuation sheet.
- C. lender loan information.
- D. Unmarried Borrower Addendum.

*The correct answer is A. - An additional borrower that shares assets, liabilities, and real estate will complete the four-page Additional Borrower Information Form.*

- 17. The definition of a covered loan includes all of the following EXCEPT a**
- A. closed-end loan for agricultural purposes.
  - B. closed-end loan for less than \$500.
  - C. construction-only loan.
  - D. “one-time close” construction loan that provides interim and permanent funds.**

*The correct answer is D. - A covered loan includes the combination of a short-term construction loan and the permanent financing. The inclusion of the permanent financing voids the exemption for a short-term construction loan.*

- 18. A non-depository entity (mortgage broker/banker) must report HMDA covered loan data beginning in 2018 if the entity has**

- A. closed 100 covered open-end transactions in the previous two years.
- B. closed 25 covered closed-end transactions in each of the previous two years.
- C. originated 15 covered open-end transactions in the previous two years.
- D. originated 25 covered closed-end transactions in each of the previous two years.**

*The correct answer is D. - The requirement to report HMDA data is based on originated loans, not closed loans. The requirement is 25 covered loans originated in the previous two years.*

- 19. A creditor that receives an application for credit for a mortgage loan secured by a dwelling is required to request all of the following information from a borrower EXCEPT the borrower’s**

- A. ethnicity.
- B. race.
- C. sex.
- D. religion.**

*The correct answer is D. - The religion of a borrower is not a required trait that a mortgage entity must collect.*

- 20. The information section collected about a borrower that is used to determine if a creditor is acting in a discriminatory manner is called the \_\_\_\_\_ Section.**

- A. Borrower Attributes
- B. Borrower Demographics**
- C. Borrower Information
- D. Regional Demographics

*The correct answer is B. - Section 7: Borrower Demographics collects a borrower’s personal information regarding race, sex, and ethnicity to determine creditor compliance with the Fair Housing Act and the Equal Credit Opportunity Act.*

- 21. Money laundering involves transactions intended to**

- A. allow banks to return currency to the government.
- B. disguise the actual source of funds.**
- C. make money suitable for circulation.
- D. process newly minted currency for presentation to the U.S. Treasury.

*The correct answer is B. - Money laundering involves hiding or disguising the actual source of money.*

**22. What is NOT a requirement of financial institutions by the Bank Secrecy Act?**

- A. compare customer names with government lists of terrorists
- B. implement a written risk-based customer identification policy
- C. maintain records

**D. require bank officers to become licensed with FinCEN**

*The correct answer is D. - The BSA requires a financial institution to have a customer identification policy, to maintain records, and compare names with government lists.*

**23. Which of the following would NOT be considered suspicious activity?**

- A. activity or funds serving no legal or business purpose
- B. circumventing BSA requirements by placement, layering, or structuring
- C. funds derived from illegal activity

**D. providing an independent contracting income**

*The correct answer is D. - Requiring a consumer to provide identification is not considered suspicious activity.*

**24. What CANNOT be a factor to consider when assessing the decision to investigate further or file an SAR?**

- A. dollar amount of a transaction
- B. identification of a consumer
- C. number and frequency of transactions

**D. source of income for a borrower**

*The correct answer is D. - The source of income of a borrower cannot be one of the factors that determine the decision to investigate or file a report with federal officials.*

**25. Which of the following is NOT considered a red flag for violations of the BSA/AML?**

- A. consumer who presents different identification for each transaction
- B. expired identification document
- C. identification that appears changed

**D. large volume of federal income tax returns for two years**

*The correct answer is D. - The volume of documents contained in a federal income tax return is not a red flag for violations of BSA/AML.*

**26. Which entity is NOT required to submit Suspicious Activity Reports?**

- A. casinos
- B. convenience markets**
- C. insurance companies
- D. mortgage brokers

*The correct answer is B. - A convenience market is not considered a financial institution and is not required to submit Suspicious Activity Reports.*

**27. A Suspicious Activity Report must be filed with \_\_\_\_\_ days.**

- A. 3 business
  - B. 10 calendar
  - C. 15 business
- D. 30 calendar**

*The correct answer is D. - An SAR must be filed within 30 days of the detection of suspicious activity.*

**28. An SAR report must be retained for \_\_\_\_\_ years from the date of filing.**

- A. two
- B. three
- C. five**
- D. seven

*The correct answer is C. - An SAR report must be retained for five (5) years after filing the report.*

**29. Originally, the Bank Secrecy Act was enacted by Congress in 1970 to prevent \_\_\_\_\_ from being used to hide money derived from criminal activity and tax evasion.**

- A. banks**
- B. casinos
- C. money transmitters
- D. mortgage lenders

*The correct answer is A. - The Bank Secrecy Act initially was designed to prevent banks from being used to hide funds from illegal activities.*

**30. To comply with the Anti-Money Laundering Act, a non-depository institution must do all of the following EXCEPT**

- A. initiate an independent audit of the company AML program.
- B. perform an annual risk assessment of the AML program.
- C. provide an annual customer list to FinCEN.**
- D. provide ongoing education and training to all employees.

*The correct answer is C. - A financial institution is not required to provide an annual customer list to FinCEN.*

## Chapter 2

### Exercise 2.1 - Apply Your Knowledge (Page 41)

**What two actions by the defendants raised a “red flag” that indicated there might be a violation of the Fair Housing Act based on racial discrimination?**

- The two red flags occurred when 1. The MLO informed the borrowers that the declined loan was because the property was located on a Native American reservation, and 2. That Red Sky Risk Service was not able to appraise the property because of the location on a reservation.

### Exercise 2.2 - Apply Your Knowledge (Page 44)

**1. The defendants placed a real estate listing in a local newspaper that included statements in the advertisement violating the Fair Housing Act familial non-discrimination policy. What is the discriminatory phrase the advertisement used?**

- The defendants used the phrase, “best for a single person or couple with no children” in the advertisement.

**2. How did the complainant verify the actions of the landlord to establish the discrimination case?**

- The complainant assigned testers to apply for the housing. One tester claimed to have children and was not provided an application to rent the home. The tester who claimed to have no children was strongly urged to complete a rental application. The two testers each recorded and compared their conversations with the landlords.

**3. The respondents were required, as part of their settlement, to affirmatively advertise their units as \_\_\_\_\_ or**

\_\_\_\_\_.

- The respondents must advertise their units as “children welcome” or “family friendly.”

**4. The respondents were also required to refund security deposits and rent in the agreement. In addition to the refunds, they were required to**

\_\_\_\_\_.

- The respondents were required to make a donation of \$1134 to a YMCA camp for two consecutive years.

### Exercise 2.3 - Knowledge Check (Page 46)

**1. If a mortgage lender discriminated against a qualified borrower due to the borrower’s race, he violated the**

- A. Fair Housing Act.**
- B. Fair Lending Act.
- C. Home Mortgage Disclosure Act.
- D. SAFE Act.

*The correct answer is A. If a lender discriminates against a borrower while making a mortgage loan decision, he violated the Fair Housing Act.*

2. **The Fair Housing Act defines familial status as one or more individuals under the age of \_\_\_\_ and residing in a home with a parent or guardian.**
- A. 15
  - B. 16
  - C. 18**
  - D. 21

*The correct answer is C. The premise of familial status is domiciling with someone under the age of 18 as a parent or guardian of the person.*

3. **An exemption to the familial status discrimination regulations is granted to 55+ communities. In 55+ communities, all occupants of a dwelling must be at least 55 years old.**
- A. true
  - B. false**

*The correct answer is B. - In 55+ communities, one occupant for 80% of the dwellings must be 55 years or older. Any additional occupants in the same dwelling can be any age and still qualify to live in the 55+ community.*

4. **If a borrower is unable to provide a credit history, a lender is not required to make a loan for the borrower.**
- A. true**
  - B. false

*The correct answer is A. - A lender is not required to make a loan to a borrower who is unemployed, unable to provide a credit history, or unable to meet the ability to repay the payments.*

#### **Exercise 2.4 - Knowledge Check (Page 49)**

1. **An approved 203K consultant must be required to inspect health and safety items noted on housing plans, as well as ensure the lowest construction cost is obtained for the handicapped borrower.**

- A. true
- B. false**

*The correct answer is B. - A 203K consultant is not required to obtain the lowest costs for the handicapped borrower. He is required to review the bids for reasonable charges.*

2. **The value that the improvements will add to the value of the real estate is commonly called the**

- A. appraisal value.
- B. contributory value.**
- C. market value.
- D. sales value.

*The correct answer is B. The value that a completed improvement adds to real estate is called the contributory value.*

**Exercise 2.5 - Apply Your Knowledge (Page 51)**

**1. The respondents were alleged to discriminate against the plaintiff by**

\_\_\_\_\_

- The respondents allegedly denied the plaintiff's reasonable accommodation request by not approving her request to port her two-bedroom voucher from a Housing Authority in Pennsylvania to the City of Winslow Public Housing.

**2. The defendants acknowledge that they have a duty not to discriminate under the Fair Housing Act and that it is unlawful to**\_\_\_\_\_

\_\_\_\_\_

- The defendants may not discriminate or retaliate against a person who has made a complaint, testified, assisted, or participated in any proceeding under the Fair Housing Act.

**3. The defendants agreed to allow the plaintiff to port her housing voucher and also agreed to**\_\_\_\_\_

\_\_\_\_\_

- The defendants agreed to allow the plaintiff to port her housing voucher and also agreed to pay the plaintiff damages of \$6028.

**4. The Fair Housing Act states that it is illegal to discriminate against any person in the terms, condition, or privileges of rental of a dwelling or obtaining real estate financing, because of**

- a) \_\_\_\_\_
- b) \_\_\_\_\_
- c) \_\_\_\_\_
- d) \_\_\_\_\_
- e) \_\_\_\_\_
- f) \_\_\_\_\_
- g) \_\_\_\_\_

- Race, color, religion, sex, national origin, disability and familial status.

**Exercise 2.6 - Apply Your Knowledge (Page 53)**

**1. A person with a handicap is an individual who has a physical or mental impairment that limits life's activities.**

- A. true
- B. false

The correct answer is A. - A handicap represents a person's physical and/or mental impairments, which limit a person's major life activities.

**2. The Fair Housing Act extends protection against discrimination based on all of the following EXCEPT.**

- A. age.
- B. color
- C. national origin.
- D. religion.

The correct answer is A. The Fair Housing Act does not prohibit age discrimination. Age is protected by Regulation B.

### Exercise 2.7 - Apply Your Knowledge (Page 54)

Consider the following discussion topics and provide your answer.

#### 1. What is the FHA rule for non-occupying cosigners regarding LTV?

- *LTV Limitations Based on Non-Occupying Borrower Status*

(1) *A non-occupying borrower transaction refers to a transaction involving two or more borrowers in which one or more of the borrower(s) will not occupy the property as their principal residence.*

(2) *Maximum LTV for non-occupying borrower transactions is 75 percent. The LTV can be increased to a maximum of 96.5 percent if the borrowers are family members, provided the transaction does not involve:*

- *A family member selling to a family member who will be a non-occupying co-borrower.*
- *A transaction on a two- to four-unit property.*

*Cosigners are liable for the debt and, therefore, must sign the note. Cosigners do not hold an ownership interest in the subject property and, therefore, do not sign the security instrument. Non-occupying co-borrowers or cosigners must either be U.S. citizens or have a principal residence in the U.S.*

*[See HUD Manual 4000.1.II.A.1.b.ii.A.5&6; see also HUD Manual 4000.1.II.A.2.b.ii.B.]*

#### 2. How did ABC Lender's Bank's interpretation of the co-borrower's relationship to the borrower likely affect the loan decision in this case?

- *The creditor, despite being presented with legal marital status, did not consider the lesbian couple as married, because the marriage was a same-sex union. This led the co-borrower to be considered a "non-family member," which reduced the loan to value to 75% and resulted in the denial of the mortgage.*

### Exercise 2.8 - Knowledge Check (Page 61)

#### 1. The MARS Rule now makes it illegal for mortgage loan modification companies to make claims such as: "We get more people approved for a loan modification than any other non-profit."

- A. true
- B. false

*The correct answer is A. - A loan modification company may not advertise that it has the ability to get loan modification approval for more people than another non-profit agency.*

#### 2. A loan modification company must provide a written disclosure of all advance payments required for consumers seeking loan modifications.

- A. true
- B. false

*The correct answer is B. - A modification company may not require or accept any advance payment prior to the acceptance of a written modification offer by the consumer.*



## Chapter 2 Quiz (Page 63-64)

**1. The ADA provides handicapped individuals with the right to**

- A. forgo the cost of repairs to return a property to its original condition when moving out based on handicap-accessible modifications made to accommodate their needs.
- B. lower rent when a unit requires handicap-accessible modifications.
- C. make minor modifications to their residences.**
- D. require landlords to pay for handicap-accessible modifications to a residence.

*The correct answer is C. - Handicapped borrowers cannot be denied the opportunity to make modifications to a premises if they bear the cost of construction.*

**2. The Fair Housing Act defines familial status as one or more individuals who are**

- A. married.
- B. residing in a 55+ community.
- C. under the age of 18 residing in a home with a parent/guardian.**
- D. unmarried.

*The correct answer is C. - The premise of familial status is domiciling with someone under the age of 18 as a parent or guardian of the person.*

**3. Before the ADA was broadened to include familial status, it was brought into evidence that \_\_\_\_\_ of the available rental housing in the U.S. were found to bar or restrict families with children.**

- A. 25%
- B. 50%
- C. 75%**
- D. 90%

*The correct answer is C. - It was reported to Congress that 75% of the landlords in the United States had a practice of barring or restricting families with children prior to the ADA protecting familial status.*

**4. A property that is not occupied, designed, or intended for occupancy could NOT be classified as a**

- A. dormitory.
- B. long-term care facility.
- C. motel.
- D. residence.**

*The correct answer is D. - A residence must be occupied, designed, or intended for occupancy. If it is not, then the Fair Housing Act does not apply.*

**5. The Fair Housing Act shall NOT prohibit a \_\_\_\_\_ association or a \_\_\_\_\_ organization from limiting the sale, rental, or occupancy of dwellings it owns to its members or giving members preference.**

- A. non-published; public
- B. private; religious**
- C. public; religious
- D. religious; community

*The correct answer is B. - The Fair Housing Act allows a private association or a religious organization to restrict the sale, rental, or occupancy of dwellings it owns to members.*

**6. The proceeds from a full 203K loan can be utilized for all of the following EXCEPT**

- A. eliminating health and safety standards.
- B. installing a whirlpool tub to provide therapy for a handicapped person.**
- C. making structural alternations for handicapped accommodations.
- D. updating or modernizing the home.

*The correct answer is B. - Installing a whirlpool tub is considered a luxury and the 203K loan proceeds cannot pay for the cost.*

**7. If a co-signer or non-occupant borrower is not a family member, the maximum LTV for the FHA loan cannot exceed**

- A. 50%.
- B. 75%.**
- C. 85%.
- D. 90%.

*The correct answer is B. - FHA guidelines state that unless the co-signer/non-occupant co-borrower is a family member, the LTV for the FHA insured loan cannot exceed 75%.*

**8. When designing an advertisement, a creditor must remember that it violates the Fair Housing Act to**

- A. indicate a member of a protected class is welcome to apply.
- B. mention a protected class.
- C. promote a non-protected class.**
- D. represent several protected classes in a single advertisement.

*The correct answer is C. - An advertisement may not promote or exclusively use a non-protected class, such as all males or all whites.*

**9. Violations of the Fair Housing Act are enforced by**

- A. the CIA.
- B. the DOJ.
- C. the FBI.
- D. HUD.**

*The correct answer is D. - The Fair Housing Act is enforced by HUD. Violations must be reported within one (1) year of violation.*

**10. An approved 203K consultant must do all of the following EXCEPT**

- A. inspect any of the health and safety items noted on the plans.
- B. inspect the site of the construction.
- C. obtain the lowest construction cost for the handicapped borrower.**
- D. review the specifications for compliance with HUD's MPRs.

*The correct answer is C. - A 203K consultant is not required to obtain the lowest costs for the handicapped borrower. They are required to review the bids for reasonable charges.*

**11. The value that an improvement adds to the value of the real estate is commonly called the**

- A. as-is value.
- B. contributory value.**
- C. cost approach value.
- D. market data value.

*The correct answer is B. - The value that an improvement adds to the value of the real estate is called the contributory value.*

**12. A lender cannot deny a loan solely based upon the knowledge that the borrower is**

- A. not able to meet the ability to repay the payments.
- B. receiving public assistance as a source of income.**
- C. unable to provide a credit history.
- D. unemployed or not able to make the payments.

*The correct answer is B. - A lender is not required to make a loan to a borrower who is unemployed, unable to provide a credit history, or unable to meet the ability to repay the payments.*

**13. Communities with one occupant in 80% of the dwellings of at least \_\_\_\_ years of age are exempted from the familial status exception.**

- A. 18
- B. 50
- C. 55**
- D. 70

*The correct answer is C. - In 55+ communities, one occupant of 80% of the dwellings must be at least 55 years of age or older.*

**14. A loan modification might offer the borrower all of the following changes to her mortgage EXCEPT a change in the**

- A. interest rate.
- B. loan servicer.**
- C. loan term.
- D. principal amount due.

*The correct answer is B. - A loan modification may change the loan term, the interest rate, or the principal amount of the mortgage loan, but the loan servicer would not change as a result of the modification.*

**15. Who is NOT regulated by the MARS Rule?**

- A. accountants who advertise they will assist with a loan modification
- B. mortgage bankers
- C. mortgage loan servicers**
- D. real estate agent

*The correct answer is C. - A mortgage loan servicer, who only modifies the loans in her portfolio, is not required to comply with the MARS Rule.*

**16. It is a violation of the MARS Rule to accept**

- A. an advance fee for modification services.**
- B. client documents prior to a signed agreement.
- C. a loan modification offer from the consumer's servicer.
- D. a signed agreement by a consumer.

*The correct answer is A. - A loan modification company may not accept any fee until a loan modification agreement is received and accepted by the consumer.*

**17. Some states have issued further regulations for loan modification servicers, including the requirement that the servicer be licensed as a(n)**

- A. appraiser.
- B. banker.
- C. MLO.**
- D. real estate agent.

*The correct answer is C. - A few states, such as Arizona, have worked to implement the SAFE Act by implementing a requirement which requires any person assisting in a loan modification to be a state licensed MLO.*

**18. Which disclosure is a loan modification company NOT required to make to a consumer?**

- A. The company is not endorsed by the federal government.
- B. The consumer may cease doing business with the modification company at any time.
- C. The lender may not agree to modify the consumer's loan if he uses the modification service.
- D. The modification fee is due when the lender provides a trial modification agreement.**

*The correct answer is D. - The fee for modifying a consumer's loan is due when the modification company obtains an offer from the current lender, it is presented to the consumer, and the consumer accepts the modification offer.*

**19. A loan modification company must maintain its business and advertising records for**

- A. six months.
- B. one year.
- C. two years.**
- D. three years.

*The correct answer is C. - Loan modification companies must maintain all records for two (2) years.*

**20. All of the following must be disclosed to a consumer seeking a loan modification EXCEPT**

- A. the amount of the advance payment to the modification company.**
- B. the consumer's lender may not agree to the modification.
- C. that the consumer can stop the process at any time.
- D. the total cost to the consumer.

*The correct answer is A. - The modification company may not require or accept any advance payment prior to the acceptance of a written modification offer by the consumer.*

## Chapter 3

### Exercise 3.1 - Knowledge Check (Page 69)

1. The SAFE Act defines a 30-year fixed-rate loan as a
- A. conventional loan.
  - B. covered loan.
  - C. non-traditional loan.
  - D. traditional loan.**

*The correct answer is D. A 30-year fixed-rate loan is a traditional loan; therefore, a nontraditional loan is any loan other than a 30-year fixed-rate loan.*

2. One factor that led to the mortgage crisis was an increase in nontraditional loans with risk layering.
- A. true**
  - B. false

*The correct answer is A. - Mortgages with risk layering were a contributing factor to the mortgage crisis.*

3. Prior to the mortgage crisis, regulatory agencies were concerned that borrowers who obtained a nontraditional loan were not given enough education and disclosure.
- A. true**
  - B. false

*The correct answer is A. - Prior to the mortgage crisis in the mid-2000s, regulatory agencies felt that borrowers who obtained nontraditional loans were not provided sufficient education and disclosure about their loan programs.*

4. A typical hybrid ARM loan would include a two-(2) or three-(3) year fixed period before converting to a(n)
- A. adjustable interest rate loan.**
  - B. interest-only payment loan.
  - C. negative amortizing loan.
  - D. optional payment loan.

*The correct answer is A. A typical hybrid ARM's loan would include a two-(2) or three-(3) year fixed period. At the end of the fixed period, the loan would convert to an adjustable interest rate loan for the remainder of the term.*

5. Full amortization occurs when a monthly mortgage payment is insufficient to meet the interest due for that month.
- A. true
  - B. false**

*The correct answer is B. - When the required monthly payment does not meet the monthly interest charge amount, negative amortization occurs.*

6. To prevent the collapse of the secondary financial markets, the FHFA placed the \_\_\_\_\_ into conservatorship.
- A. CFPB and HUD
  - B. FHA and FHLMC
  - C. FNMA and the FHA
  - D. FNMA and the FHLMC**

The correct answer is D. The FNMA and FHLMC became bankrupt due to the guarantees they provided for secondary market investors and, due to this status, the FHFA placed both into conservatorship.

**Exercise 3.2 - Knowledge Check (Page 73)**

1. When analyzing derogatory remarks on a consumer's credit report, an MLO should overlook the derogatory credit as long as the borrower has acceptable sizable equity or assets.

A. true  
B. false

The correct answer is B. - An MLO must never overlook a derogatory credit history due to large down payment or equity in a property. He must review and analyze the circumstances of the late payments.

2. When payment shock occurs, a monthly mortgage payment is reduced by a significant amount.

A. true  
B. false

The correct answer is B. - Payment shock occurs when a consumer's monthly housing payment increases significantly, often without any education or disclosure to the consumer

**Exercise 3.3 - Apply Your Knowledge: Identifying Net Benefits (Page 78)**

Using the closing costs recapture form in the Appendix, calculate the time it takes the borrower to recover his closing costs from the refinance transaction using the following information:

Previous Loan Number: #1234567	New Loan Number: #2345678
Original Loan Amount: \$150,000	Proposed Loan Amount: \$180,000
Original Loan Term: 30 Years	Proposed Loan Term: 30 Years
Monthly Payment (P&I): \$911.42	Proposed Monthly Payment: \$859.35
Previous Interest Rate: 6.125%	Proposed Interest Rate: 4.00%
	Monthly decrease in Payments: \$52.07
	Non-Recurring Closing Costs: \$3769

1. What are the recoup closing costs?

- The recoup closing costs are equal to 72.38 months.

2. Using the calculated number of months to recoup closing costs, does this loan qualify as a loan with a net tangible benefit?

- Using the guideline of a time of 48 months or less, this loan would not have a net tangible benefit to the borrower because the recapture (recoup) time exceeds the guideline.

3. Review the completed worksheet and identify the net tangible benefits to the borrower.

a. \_\_\_\_\_  
b. \_\_\_\_\_  
c. \_\_\_\_\_

- The net tangible benefits to the borrower include a lower interest rate, lower monthly payment, and a cash out.

**4. Based on the time to recoup the closing costs and the net tangible benefits identified, is this a loan that you would make, and if so, why would you extend this loan to the consumer?**

- Yes, there are three net tangible benefits identified, even though the recapture time for the closing costs exceeds 48 months. These three benefits provide a value to the consumer that will benefit them over the term of the mortgage loan.

#### **Exercise 3.4 - Knowledge Check (Page 79)**

**1. A \_\_\_\_\_ is a nontraditional mortgage that uses the value of the collateral as the prime factor for making a loan.**

- A. Collateral-dependent loan
- B. non-owner occupied investment loan
- C. reduced documentation loan
- D. simultaneous second-lien mortgage

The correct answer is A. A collateral-dependent loan only uses the consumer's equity or down payment to qualify for the mortgage loan.

**2. It's always a good idea to have an interested party to a nontraditional loan who can contribute to a borrower's down payment.**

- A. true
- B. false**

The correct answer is B. - An interested party such as a seller or MLO should never be allowed to contribute to the borrower's down payment, based on the opinion the borrower will not have a commitment to repay the loan, or "skin in the game."

**3. When borrower Bob is provided with the advantages of completing a loan transaction, this is known as**

- A. cash-flow financing.
- B. borrower benefit financing.
- C. net tangible benefits.**
- D. points and fee discounting.

The correct answer is C. When the borrower is provided with one or more advantages of completing a loan transaction, these are known as the net tangible benefits.

#### **Exercise 3.5 - Apply Your Knowledge (Page 80)**

**1. If the borrower states he intends to pay the loan in full in 18 months, which interest rate and payment provide the best net tangible benefit?**

- The interest rate that provides the lender credit loan is best suited for this borrower because of the short payoff term.

**2. How much will the borrower save if he chooses the lender credit payment?**

18 (months of payments)

x \$120.55 (increased payment per month for lender credit)

= \$2,169.90 (18 months of total payments)

\$6,000 (lender credit)

- \$2,169.90 (18 months of total payments)

= \$3,830.10 (savings)

By accepting the lender credit to cover his out of pocket closing costs and higher payments, and if the borrower pays back the loan in full in 18 months, he will save \$3,830.10.

3. If the borrower opts to take the lower, 30-year rate, how many months does it take for him to recover his closing costs from the reduced mortgage payment?  
What is the amount of the total savings for the borrower?

- If the borrower saved \$120.55 per month by accepting the par rate and paying the \$6,000 in closing costs from their own resources, the recapture time for accepting the lower payment and paying closing costs out of pocket is 49.77 months.  
 $\$6000 \div \$120.55 = 49.77 \text{ months.}$

**\$120.55** (Monthly payment savings)  
**x 360** (loan term in months)  
**= \$43,398** (savings over loan term)

The borrower paid \$6,000 to receive the payment savings, so the net saving to the borrower is \$43,398 - \$6,000 = \$37,398.

### Exercise 3.6 - Knowledge Check (Page 84)

1. Short-term loans (such as a 10 or 15-year term) that will be paid in full when retirement age is reached may be the most appealing to

- A. erratic income borrowers.
- B. middle aged borrowers.**
- C. retired borrowers.
- D. seasonal worker borrowers.

The correct answer is B. For a middle aged borrower, a short-term loan (such as a 10 or 15-year term loan) that will be paid when retirement age is reached may be the most appealing.

2. A no fee loan is best suited for a mover borrower.

- A. true**
- B. false

The correct answer is A. - The mover, who owns the property a short period of time, will benefit from a lender credit provided by a higher interest rate, as long as the buyer intends to pay off the loan in a relatively short period of time.

### Exercise 3.7 - Apply Your Knowledge (Page 84)

1. Name five types of borrowers for which a nontraditional loan product would be suitable.

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_
- 5. \_\_\_\_\_

- A borrower who needs continual access to funds, a senior borrower, a borrower who frequently moves, a self-employed borrower, or an investor, etc.



### Exercise 3.8 - Knowledge Check (Page 86)

1. **A seller who sells more than one, but less than three, seller financed properties in a 12-month period must verify the buyer's ability to repay the loan.**

A. true  
B. false

*The correct answer is A. - A seller who sells more than one home and less than three homes per year and finances the buyer must verify the buyer's ability to repay the purchase-money loan.*

2. **It is imperative that anyone considering any form of seller financing must confirm that any existing mortgage has a(n)**

A. **alienation clause.**  
B. defeasance clause.  
C. lease option agreement.  
D. signed buyer protection checklist.

*The correct answer is A. An alienation clause is a clause contained in a mortgage that allows the mortgage lender to call the loan due and payable upon transfer of title or beneficial interest.*

### Chapter 3 Quiz (Page 87-88)

1. **A nontraditional loan is defined by the SAFE Act as any loan other than a**

A. 3/1 LIBOR ARM.  
B. 15-year fixed-rate loan.  
C. **30-year fixed-rate loan.**  
D. pay option ARM.

*The correct answer is C. - A 30-year fixed-rate loan is a traditional loan. A nontraditional loan is defined as any loan other than a 30-year fixed rate loan.*

2. **A factor that led to the mortgage crisis was the occurrence of**

A. improved consumer credit qualifying standards.  
B. increased consumer savings indexes.  
C. **low interest rates.**  
D. more housing supply than demand.

*The correct answer is C. - Low mortgage rates contributed to the mortgage crisis.*

3. **Regulatory agencies expressed concern prior to the mortgage crisis that borrowers who obtained a nontraditional loan were not given enough**

A. **education and disclosure.**  
B. lender credit towards closing costs.  
C. prepayment penalties.  
D. time to spread monthly payments.

*The correct answer is A. - Regulatory agencies documented concern that borrowers who obtained nontraditional loans were not provided sufficient education and disclosure about the loan program into which they were entering.*

**4. Nontraditional loan features include all of the following EXCEPT**

- A. hybrid ARMS.
- B. interest-only payments.
- C. level loan payments for 30 years.**
- D. pay option adjustable rate loans.

*The correct answer is C. - Nontraditional loans do not have a 30 year, level loan payment feature.*

**5. Negative amortization occurs when the**

- A. interest charge on a payment exceeds the principal payment.
- B. mortgage payment made is insufficient to meet the interest for that month.**
- C. payment is interest only.
- D. principal portion of the payment exceeds the interest portion by 5% or more.

*The correct answer is B. - When the required monthly payment does not meet the monthly interest charge amount, negative amortization occurs.*

**6. A collateral-dependent loan is a nontraditional mortgage that**

- A. depends on the consumer's ability to repay a loan for the collateral.
- B. disregards a borrower's down payment and only values the consumer's equity.
- C. underwrites the collateral using rental income ratios.
- D. uses the value of the collateral as the prime factor for making a loan.**

*The correct answer is D. - A collateral-dependent loan only uses the consumer's equity or down payment to qualify the borrower for the mortgage loan.*

**7. An interested party to a loan transaction should never be allowed to contribute to a buyer's**

- A. closing costs.
- B. down payment.**
- C. moving expenses.
- D. second home purchase.

*The correct answer is B. - An interested party, such as a seller or MLO, should never be allowed to contribute to a borrower's down payment.*

**8. When analyzing a consumer's derogatory remarks on her credit report for a nontraditional loan, an MLO should do all of the following EXCEPT**

- A. analyze the derogatory event to determine if the event was above and beyond the control of the borrower.
- B. disregard derogatory credit as long as the borrower has sizable equity or assets.**
- C. review the credit history after derogatory events have occurred.
- D. review the credit history before the derogatory events occurred.

*The correct answer is B. - An MLO must never overlook a derogatory credit history due to large down payment or equity in the property. He must review and analyze the circumstances of the late payments.*

**9. Faced with the collapse of the secondary financial markets, the FHFA placed the \_\_\_\_\_ into conservatorship.**

- A. FNMA and FHLMC**
- B. FNMA and GNMA
- C. GNMA and FHLMC
- D. VA and HUD

*The correct answer is A. - The FNMA and FHLMC were bankrupt due to the guarantees they provided for secondary market investors. As a result, the FHFA had to place both the FNMA and the FHLMC into conservatorship.*

**10. The middle-aged borrower is likely attracted to**

- A. budget mortgages.
- B. down payment assistance loans.
- C. reverse mortgages.
- D. short-term loans.**

*The correct answer is D. Short term loans generally appeal to middle-aged borrowers, because they are focusing on paying off their homes by retirement in the next 10 to 15 years.*

**11. When a borrower is provided with a benefit to complete the loan transaction, this is known as**

- A. an adjustable rate mortgage.
- B. cash-flow financing.
- C. the net tangible benefit.**
- D. a pay option ARM.

*The correct answer is C. - When a loan transaction provides the borrower one or more tangible benefits, these are known as the net tangible benefit.*

**12. All of the following are types of typical nontraditional loan buyers EXCEPT the**

- A. mover.
- B. nester.**
- C. retiree.
- D. self-employed entrepreneur.

*The correct answer is B. - The nester is not a type of nontraditional borrower; it is likely this person's characteristics will indicate a preference and qualification for a traditional loan.*

**13. A no fee loan is best suited for which type of nontraditional buyer?**

- A. middle-aged buyer
- B. mover**
- C. retiree
- D. young couple who are first-time homebuyers

*The correct answer is B. - The mover, who owns the property a short period of time, will benefit from a lender credit provided by a higher interest rate, as long as the buyer intends to pay off the loan in a relatively short period of time.*

**14. A seller who sells more than one, but less than three, seller-financed properties in a 12-month period must**

- A. be the owner, builder, or general contractor of the property.
- B. offer a market interest rate to the buyer.
- C. only offer a five-year term loan.
- D. verify the buyer's ability to repay the loan.**

*The correct answer is D. - A seller who sells more than one home, but less than three homes, per year and finances buyers must verify the buyer's ability to repay the purchase-money loan.*

**15. It is imperative that anyone considering any form of seller financing confirm whether any existing mortgage has a(n) \_\_\_\_\_ clause.**

- A. acceleration
- B. adjustment
- C. alienation**
- D. defeasance

*The correct answer is C. - An alienation clause is a clause contained in a mortgage that allows the mortgage lender to call the loan due and payable upon transfer of title or beneficial interest.*

**16. The difference between the actual value of a mortgage-backed security and the price an investor is willing to pay for it is referred to as a**

- A. differential factor.
- B. haircut.**
- C. mitigating factor.
- D. price valuation.

*The correct answer is B. A haircut is the difference between the actual value of a mortgage-backed security and the price an investor is willing to pay for it.*

**17. Payment shock occurs when**

- A. the first monthly mortgage statement causes a late payment combined with the second mortgage statement.
- B. the mortgage payment for the consumer is maintained for a period of 12 months and is then reduced by a significant amount.
- C. there is a significant decrease in the housing expense to the consumer.
- D. there is a significant increase in the housing expense to the consumer.**

*The correct answer is D. - Payment shock occurs when a consumer's monthly housing payment increases significantly, often without any education or disclosure to the consumer.*

**18. A middle-aged borrower planning on retirement would most likely find the \_\_\_\_\_ as the most attractive nontraditional loan product.**

- A. 15-year term loan**
- B. interest-only loan
- C. no fee loan
- D. reverse mortgage

*The correct answer is A. - The middle-aged borrower is looking forward to retirement and a day when she is no longer making a mortgage payment. For this type of borrower, a short-term loan (such as a 10 or 15-year term loan) that will be paid when she reaches retirement age may be the most appealing.*

**19. A retiree on a fixed income would most likely find the \_\_\_\_\_ as the most attractive nontraditional loan product.**

- A. 10-year term loan
- B. interest-only loan
- C. reverse mortgage**
- D. subprime mortgage

*The correct answer is C. - A nontraditional loan product may be a good solution for an older homeowner on a fixed income when there is a need for access to equity. A reverse mortgage or HECM may provide the funds to meet the required needs of the retired or fixed income borrower.*

**20. The erratic income borrower may include all of the following borrowers EXCEPT the**

- A. commission-based borrower.
- B. retiree.**
- C. seasonal worker.
- D. self-employed worker.

*The correct answer is B. - Borrowers who do not have a consistent income are known as erratic income borrowers. The following borrowers might be classified as an erratic income borrower: Self-employed, commission-based, seasonal, or in trades.*

## Chapter 4: State License Renewal and Compliance

### Exercise 4.1 Knowledge Check (page 91)

1. The Division of Consumer Finance is housed with the Florida Office of Financial Regulation and regulates Florida loan originators, brokers, and lenders.

**A. True**

B. False

*Correct Answer: The correct answer is A. The Division of Consumer Finance is housed with the Florida Office of Financial Regulation and regulates Florida loan originators, brokers, and lenders.*

2. The \_\_\_\_\_ is a criminal justice agency that conducts complex investigations involving securities and mortgage fraud.

**A. Bureau of Financial Investigations**

B. Division of Consumer Finance

C. Division of Financial Institutions

D. Division of Securities

*Correct Answer: The correct answer is A. The Bureau of Financial Investigations is a criminal justice agency that conducts complex investigations involving securities and mortgage fraud.*

### Exercise 4.2 Matching Activity (page 94)

Match the license type with the description of the activities that can be performed by the licensee:

A. Mortgage Broker

B. Mortgage Lender

C. Loan Originator

License Type	Activities Performed by Licensee
<b>B. Mortgage Lender</b>	1. <b>Making</b> a mortgage loan or <b>servicing</b> a mortgage loan for others, or, for compensation or gain, directly or indirectly, selling or offering to sell a mortgage loan to a noninstitutional investor
<b>C. Loan Originator</b>	2. Directly or indirectly, solicits or offers to <b>solicit a mortgage loan</b> , accepts or offers to accept an application for a mortgage loan, negotiates or offers to negotiate the terms or conditions of a new or existing mortgage loan on behalf of a borrower or lender, or negotiates or offers to negotiate the sale of an existing mortgage loan to a non-institutional investor for compensation or gain

<b>A. Mortgage Broker</b>	3. Conducting loan originator activities <b>through one or more licensed loan originators</b> employed by a mortgage broker or as an independent contractor to a mortgage broker.
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### Exercise 4.3 Knowledge Check (page 94)

1. A person who seeks to act solely as a loan processor needs to be licensed as a mortgage lender.

A. True

**B. False**

*Correct Answer: The answer is B. Per 69V-40.0331, FAC, a person who seeks to act solely as a loan processor should be licensed as a loan originator (not a mortgage lender).*

2. An attorney licensed in this state who negotiates the terms of a mortgage loan on behalf of a client as an ancillary matter to the attorney's representation of the client is exempt from the regulations of Chapter 494, FS parts I and II.

**A. True**

B. False

*Correct Answer: The answer is A. Per Chapter 494.00115, FS and 69V-40.0312, FAC, an attorney licensed in this state who negotiates the terms of a mortgage loan on behalf of a client as an ancillary matter to the attorney's representation of the client is exempt from the regulations of Chapter 494, FS.*

### Exercise 4.4 Class Discussion (pare 96)

One requirement for license renewal is that a licensee demonstrate the character, general fitness, and financial responsibility necessary to command the confidence of the community and warrant a determination that the licensee will operate honestly, fairly, and efficiently. ***Do you think that this is an important, clear, and relevant requirement for a mortgage originator? Why or why not?***

*Correct Answer: Student answers will vary. Instructors should ask questions to ensure students can support their own responses and that they understand the requirement.*

### Exercise 4.5 Knowledge Check (page 97)

1. In order to renew her license, MLO Karen is to provide documentation of the completion of at least six (6) hours of continuing education.

A. True

**B. False**

*Correct Answer: The answer is B. Per Chapter 494.00313, FS, to renew a loan originator license, the licensee must provide documentation of completion of at least eight (8) hours of continuing education.*

2. Adverse credit history that may result in a loan originator license not being renewed may include a personal bankruptcy within the previous  
**A. year.**  
B. two years.  
C. four years.  
D. five years.

*Correct Answer: The answer is A. Per 69V-40.0113, FAC, adverse credit history that may result in a loan originator license not being renewed may include a personal bankruptcy within the previous year.*

#### **Exercise 4.6 Knowledge Check (page 103)**

1. Each licensee is to report to the Office any action in bankruptcy, voluntary or involuntary, within \_\_\_\_ days after the action is instituted.  
A. 10  
**B. 30**  
C. 45  
D. 60

*Correct Answer: The answer is B. Per Chapter 494.004, FS, each licensee is to report to the Office any action in bankruptcy, voluntary or involuntary, within 30 days after the action is instituted.*

2. All books, accounts, records, documents, and receipts for expenses paid by the licensee on behalf of the borrower shall be preserved and kept available for examination by the Office for at least three (3) years after the date of original entry.  
A. **True**  
B. False

*Correct Answer: The answer is A. Per Chapter 494.0016, FS, all books, accounts, records, documents, and receipts for expenses paid by the licensee on behalf of the borrower, including each closing statement signed by a borrower, shall be preserved and kept available for examination by the Office for at least three (3) years after the date of original entry.*

3. All documentation originated, received, or related to the mortgage loan from the application through the final disposition must be maintained by a mortgage broker for \_\_\_\_ from the date of the original entry.  
A. 6 months



- B. 1 year
- C. 2 years
- D. 3 years**

*Correct Answer: The answer is D. Per 69V-40.175, FAC and 69V-40.260, FAC, all documentation originated, received, or related to the mortgage loan from the application through the final disposition must be maintained by a mortgage broker or lender for three (3) years from the date of the original entry.*

#### **Exercise 4.7 Class Discussion (page 104)**

Think about potential positive or negative outcomes of an Office of Financial Regulation's examination or investigation of a licensee or business. ***For instance, do you think the Office examination or investigative process results in interactions with borrowers that are more fair and honest than if there was no process or a different process? What are other potential positive or negative outcomes of an examination or investigation?***

*Correct Answer: Student answers will vary. Instructors should ask questions to ensure students can support their own responses and that they understand the purpose and process for investigations and examinations.*

#### **Exercise 4.8 Knowledge Check (page 105)**

1. If the Office finds a person in violation, it may enter an order imposing a fine in an amount up to \$20,000 for each count or separate offense.
  - A. True
  - B. False**

*Correct Answer: The answer is B. Per Chapter 494.00255, FS, if the Office finds a person in violation, it may enter an order imposing a fine in an amount up to \$25,000 for each count or separate offense.*

## Chapter Quiz (page 106)

1. The \_\_\_\_\_ is housed with the Florida Office of Financial Regulation and regulates Florida loan originators, brokers, and lenders.
- A. Bureau of Financial Investigations
  - B. Division of Consumer Finance**
  - C. Division of Financial Institutions
  - D. Division of Securities

*Correct Answer: The correct answer is B. The Division of Consumer Finance is housed with the Florida Office of Financial Regulation and regulates Florida loan originators, brokers, and lenders.*

2. A \_\_\_\_\_ license is required for a person making a mortgage loan or servicing a mortgage loan for others, or, for compensation or gain, directly or indirectly, selling or offering to sell a mortgage loan to a noninstitutional investor.
- A. contract loan processor
  - B. loan originator
  - C. mortgage broker
  - D. mortgage lender**

*Correct Answer: The answer is D. Chapter 494.001, FS, a person making a mortgage loan or servicing a mortgage loan for others, or, for compensation or gain, directly or indirectly, selling or offering to sell a mortgage loan to a noninstitutional investor is required to have a mortgage lender license.*

3. Which of the following individuals is NOT exempt from the licensing laws set forth by Chapter 494, FS?
- A. an attorney licensed in this state who negotiates the terms of a mortgage loan on behalf of a client as an ancillary matter to the attorney's representation of the client
  - B. a person conducting loan originator activities through one or more licensed loan originators employed as independent contractors to a mortgage broker**
  - C. a person involved solely in the extension of credit relating to the purchase of a timeshare plan
  - D. a person operating exclusively as a registered loan originator

*Correct Answer: The answer is B. Per Chapter 494, FS, a person conducting loan originator activities through one or more licensed loan originators employed as independent contractors to a mortgage broker is to be licensed per Chapter 494, FS as a mortgage broker.*

4. In order to renew his license, loan originator Link is to provide documentation of the completion of at least \_\_\_\_\_ hours of continuing education.
- A. 6
  - B. 8**
  - C. 9
  - D. 12

*Correct Answer: The answer is B. Per Chapter 494.00313, FS, to renew a loan originator license, the licensee must provide documentation of completion of at least eight (8) hours of continuing education.*

5. Mortgage broker Sue must maintain all documentation originated, received, or related to the mortgage loan from the application through the final disposition for \_\_\_\_\_ from the date of the original entry.
- A. 1 year
  - B. 2 years
  - C. 3 years**
  - D. 4 years

*Correct Answer: The answer is C. Per 69V-40.175, FAC and 69V-40.260, FAC, all documentation originated, received, or related to the mortgage loan from the application through the final disposition must be maintained by a mortgage broker or lender for three (3) years from the date of the original entry.*

6. All books, accounts, records, documents, and receipts for expenses paid by the licensee on behalf of the borrower shall be preserved for at least \_\_\_\_\_ after the date of original entry.
- A. 1 year
  - B. 2 years
  - C. 3 years**
  - D. 4 years

*Correct Answer: The answer is C. Per Chapter 494.0016, FS, all books, accounts, records, documents, and receipts for expenses paid by the licensee on behalf of the borrower, including each closing statement signed by a borrower, shall be preserved and kept available for examination by the Office for at least three (3) years after the date of original entry.*

7. Mortgage lenders that are approved Fannie Mae, Freddie Mac Seller/Servicers, or Ginnie Mae Issuers must submit the complete Expanded Mortgage Call Report through the NMLS within \_\_\_\_\_ days of the end of each calendar quarter.
- A. 30
  - B. 45**
  - C. 60

D. 90

*Correct Answer: The answer is B. Per 69V-40.176, FAC, mortgage lenders that are approved Fannie Mae, Freddie Mac Seller/Servicers, or Ginnie Mae Issuers must submit the complete Expanded Mortgage Call Report through NMLS within 45 days of the end of each calendar quarter.*

8. If the Office finds a person in violation of Chapter 494, FS, it may enter an order imposing a fine in an amount up to \_\_\_\_\_ for each count or separate offense.
- A. \$12,000
  - B. \$25,000**
  - C. \$28,000
  - D. \$30,000

*Correct Answer: The answer is B. Per Chapter 494.00255, FS, if the Office finds a person in violation, it may enter an order imposing a fine in an amount up to \$25,000 for each count or separate offense.*

9. Of the potential penalties that could be administered by the Office for a violation of Chapter 494, FS, which is considered the LEAST harsh?
- A. notice of noncompliance**
  - B. reprimand
  - C. revocation
  - D. suspension

*Correct Answer: The answer is A. Per 69V-40.111, FAC, a notice of noncompliance is the least harsh and a revocation is the most harsh.*

10. The Office shall consider circumstances when determining whether a deviation from the range of sanctions prescribed in the disciplinary guidelines is warranted. It will be considered a mitigating factor when the violation rate is less than \_\_\_\_ when compared to the overall sample size reviewed.
- A. 1%
  - B. 3%
  - C. 5%**
  - D. 8%

*Correct Answer: The answer is C. Per 69V-40.111, FAC, it will be considered a mitigating factor when the violation rate is less than 5% when compared to the overall sample size reviewed.*

## Final Activity

### Instructor Notes (Page 107-111)

- Split students into groups of four or six people.
- Give the groups ten minutes to read the scenarios and agree on a traditional or nontraditional loan solution to best suit each of the eight scenarios.
- Class discussion should follow.

### Scenario 1

Borrower Randy is a self-employed entrepreneur running his own marketing company. One bankruptcy that occurred five (5) years ago appears in his credit history.

#### Identify Randy's needs for a loan.

- Which loan(s) would best suit borrower Randy based upon these needs?**
- What are the benefits and/or downsides for the product(s)?**
- What is the ultimate recommendation?**

*Possible Response: A traditional FHA or VA loan may be the most suitable loan the borrower could obtain in this instance, due to the bankruptcy. In this scenario, unless the bankruptcy was due to an extenuating circumstance, he may not qualify for a conventional loan.*

### Scenario 2

Alex (age 60) and Pat (age 65) are a married couple. Alex currently works for an insurance company, but his company has advised him a layoff is imminent. They are encouraging him to take an early retirement package with an incentive bonus. Pat is a retired postal service employee with a pension. Pat and Alex are currently looking for a loan to provide extra money to supplement their income.

#### Identify Alex and Pat's needs for a loan.

- Which loan(s) would best suit Alex and Pat based upon these needs?**
- What are the benefits and/or downsides for the product(s)?**
- What is the ultimate recommendation?**

*Possible Response: One option is a reverse mortgage. If Alex and Pat pursue a reverse mortgage product, Alex would be able to qualify for the loan because he is not 62 years of age. Therefore, Pat would be the only borrower on the reverse mortgage loan. There could be problems with this type of loan if Pat passes away before Alex as monthly payments would cease upon the borrower's death.*

*A nontraditional loan that may best assist them would be an open-end line of credit that would provide cash for necessities until Alex turned 62, at which time they could obtain a reverse mortgage.*

### Scenario 3

Dale is an industrial equipment salesperson whose income is commission-based and somewhat unbalanced due to the long sales cycles for the large, expensive equipment. His career involves frequent transfers to areas his company targets where new industrial plants are built. Dale has recently moved and is looking for a mortgage loan to purchase a new home.

**Identify Dale's needs for a loan.**

**Which loan(s) would best suit borrower Dale based upon these needs?**

**What are the benefits and/or downsides for the product(s)?**

**What is the ultimate recommendation?**

*Possible Response: Dale has two needs for his loan: The ability to (1) Have very low required monthly payments, and (2) Make large payments when his commission checks are received. This likely indicates the loan should be a hybrid or traditional type of ARM. His frequent transfers would make a 3/1 hybrid ARM a beneficial loan product for him because it will give him lower monthly payments for a period of time before his next move.*

**Scenario 4**

Sam is a landscaper whose income is erratic because of the seasonal nature of his job. Sam is looking to purchase a home in a suburban neighborhood.

**Identify Sam's needs for a loan.**

**Which loan(s) would best suit borrower Sam based upon these needs?**

**What are the benefits and/or downsides for the product(s)?**

**What is the ultimate recommendation?**

*Possible Response: Sam needs a loan that will allow him to make payments according to his income schedule. This would likely be a HELOC that would allow him to pay interest only on the outstanding balance. It is doubtful any other nontraditional mortgage loan option would be suitable because of the potential increase in payments and the requirement of a monthly payment.*

**Scenario 5**

Andreas and Carmen are a married couple with four children. The couple owns a successful restaurant business. They are seeking a loan to buy a second building to expand their business.

**Identify Andreas and Carmen's needs for a loan.**

**Which loan(s) would best suit the borrowers based upon these needs?**

**What are the benefits and/or downsides for the product(s)?**

**What is the ultimate recommendation?**

*Possible Response: This couple would benefit from a traditional cash-out loan on their personal residence or a nontraditional HELOC. If they did not qualify because of lack of qualifying income on their income tax returns, then a nontraditional subprime loan for the second building may benefit them. They may not have to provide income documentation with a subprime loan.*

**Scenario 6**

Tom Phong is a 50-year-old real estate investor. He wants to retire comfortably in the next 10 years. He is currently seeking a loan to move and purchase a home in a new neighborhood .

**Identify Tom's needs for a loan.**

**Which loan(s) would best suit borrower Tom based upon these needs?**

**What are the benefits and/or downsides for the product(s)?**

**What is the ultimate recommendation?**

*Possible Response: Tom is preparing for retirement and a nontraditional short-term loan will benefit him the best. A 10- or 15-year loan would make sure that when he is ready to retire his mortgage debt will also be retired.*

### **Scenario 7**

Riley and Taylor are a married couple. Both are employed as physicians at a local hospital. They have recently adopted a baby and Taylor wants to take a leave of absence to stay at home with the baby for the next five (5) years. Riley and Taylor are looking to purchase a larger home for their growing family.

**Identify Riley and Taylor's needs for a loan.**

**Which loan(s) would best suit the borrowers based upon these needs?**

**What are the benefits and/or downsides for the product(s)?**

**What is the ultimate recommendation?**

*Possible Response: Riley and Taylor would benefit from a nontraditional hybrid adjustable rate loan, possibly for the five (5)-year term that Taylor will not be working outside of the home. A 5/1 ARM will provide lower payments for them while their income is decreased.*

*An interest-only loan may assist them with lower payments during the next five years as well. The net benefit to the physicians is the ability to do have Taylor take a leave of absence and still make their new monthly mortgage payments.*

### **Scenario 8**

CPA Steve just turned 40 years old. Steve is single and has decided to buy his first home. He has a solid credit history and is averse to risk.

**Identify Steve's needs for a loan.**

**Which loan(s) would best suit borrower Steve based upon these needs?**

**What are the benefits and/or downsides for the product(s)?**

**What is the ultimate recommendation?**

*Possible Response: Steve will not benefit from a nontraditional mortgage loan. He is risk averse, which means that he likes to live in an orderly and predictable manner. To have a mortgage payment increase would cause him much distress. Only a traditional or nontraditional fixed-rate mortgage will meet his needs.*