Chapter 8

Page 220: Consumer Rights
Add after last bullet
As of May 24, 2018, nationwide consumer reporting agencies are required to provide national security freezes free of charge to consumers.

Page 230: Gramm-Leach-Bliley Act (GLB Act)
The Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act (under Regulation P, Pub.L. 106-102), includes provisions in Title V – Privacy

Page 231: Consumer of Customer
3rd paragraph
Under the GLB Act, regulated by Regulation P, customers must receive a financial institution’s privacy notice every year for as long as the customer relationship lasts.

Page 238: Quiz question 3
Revised to:
3. The Fair Credit Reporting Act does NOT allow a consumer to request a
   A. copy of an adverse action notice.
   B. credit score disclosure statement from a creditor.
   C. dispute of inaccurate or incomplete information of a report.
   D. freeze on a credit report.

Correct answer is B. - The FCRA allows the consumer to dispute inaccurate or incomplete information found in the credit report, requires nationwide consumer reporting agencies to provide national security freezes free of charge to consumers, and consumers are also given the right to an adverse action notice.

Chapter 2

Page 35: When is an Application and “Application”
Moved to page 45 before Processing the Loan Application Replaced by:

Redesigned URLA Coming Soon!

Beginning July 2019, a completely redesigned URLA (Fannie Mae Form 1003 / Freddie Mac Form 65) will be published with a corresponding dataset – the Uniform Loan Application Dataset (ULAD). This update supports changes in mortgage industry credit, underwriting, and eligibility policies, and regulatory requirements. This course covers the URLA to be used until July 2019. Before July 2019, you need to visit the Fannie Mae URLA page (https://www.fanniemae.com/singlefamily/uniform-residential-loan-application) or Freddie Mac URLA page (http://www.freddiemac.com/singlefamily/sell/ulad.html) to learn how to complete the redesigned form.
There are two main reasons why a loan would be classified as nonconforming:

- **Size of the Loan.** So-called jumbo loans exceed the maximum loan amount established by the Federal Housing Finance Agency for Fannie Mae and Freddie Mac conforming mortgage loan limits.

- **Credit Quality of Borrower.** MLOs may see a borrower who does not meet the minimum standards established by Fannie Mae/Freddie Mac classified as a B or C borrower. This might be someone who has had a credit problem in the past.

Note: Annually the Federal Housing Finance Agency (FHFA) adjusts the Fannie Mae and Freddie Mac conforming loan limits based on the average U.S. home price. These conforming loan limits will be covered in detail later in this course.

**Chapter 6**

**Page 122: Jumbo Loans and B and C Borrowers**

First bullet revised

- **Size of the Loan.** So-called jumbo loans exceed the maximum loan amount established by the Federal Housing Finance Agency for Fannie Mae and Freddie Mac conforming mortgage loan limits. The 2018 single-family home conforming loan maximum is $453,100 ($484,350 ($679,650 $726,525) for high-cost areas, including Metro Washington, DC, Metro New York, Orange County and the San Francisco Bay Areas of California). Additionally, some locations in Alaska, Hawaii, Guam, and U.S. Virgin Islands may have loan limits as high as $1,019,475 $726,525.

**Chapter 7**

**Page 201: Features of Qualified Mortgages (QM)**

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Percent of Total Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>For a loan amount greater than or equal to $107,747</td>
<td>3 percent of the total loan amount</td>
</tr>
<tr>
<td>For a loan amount greater than or equal to $64,648 but less than $107,747</td>
<td>$3,155 $3,232</td>
</tr>
<tr>
<td>For loans greater than or equal to $21,549 but less than $64,648</td>
<td>5 percent of the total loan amount</td>
</tr>
<tr>
<td>For a loan amount greater than or equal to $13,468 but less than $21,549</td>
<td>$1,052 $1,077</td>
</tr>
<tr>
<td>For loans less than $13,468</td>
<td>8 percent of the total loan amount</td>
</tr>
</tbody>
</table>

**Chapter 8**

**Page 220: Consumer Rights**

Add after last bullet

As of May 24, 2018, nationwide consumer reporting agencies are required to provide national security freezes free of charge to consumers.
Note: If an MLO is running a credit report and sees a fraud alert, he must contact the person whose name is on the account at the number provided to the credit bureau or take other reasonable steps to ensure that the person applying for a mortgage loan is not really an identity thief. The minimum timeframe that a consumer reporting agency must include a fraud alert in a consumer’s file is one year.

The FACT Act also allows consumers to place a credit freeze, free of charge, to prevent the information from showing on a credit report.

The Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act (under Regulation P, Pub.L. 106-102), includes provisions in Title V – Privacy.

Under the GLB Act, regulated by Regulation P, customers must receive a financial institution’s privacy notice every year for as long as the customer relationship lasts.

The Fair Credit Reporting Act does NOT allow a consumer to request a
A. copy of an adverse action notice.
B. credit score disclosure statement from a creditor.
C. dispute of inaccurate or incomplete information of a report.
D. freeze on a credit report.

Correct answer is B. - The FCRA allows the consumer to dispute inaccurate or incomplete information found in the credit report, requires nationwide consumer reporting agencies to provide national security freezes free of charge to consumers, and consumers are also given the right to an adverse action notice.

Chapter 9

Higher-Priced Mortgage Loan

(Note, all instances of Higher-Priced Loans revised to Higher-Priced Mortgage Loans in the chapter)

HOEPA also establishes requirements for loans with high interest rates and/or fees termed High-Cost Loans. The rules for these loans are contained in Regulation Z, which implements the Truth in Lending Act. [see 12 CFR, Part 1026, Subpart E, §1026.32 Requirements for certain closed-end home mortgages]

This Act is enforced by the Federal Trade Commission for non-depository lenders and by each state’s attorney general. The CFPB enforces the Act for federally-regulated depository institutions. The Rule Making and Enforcement Authority for TILA and HOEPA were transferred to the CFPB in July 2011. HOEPA also gives the Federal Reserve Board broad regulatory authority to prohibit additional practices it finds to be unfair or deceptive, not just for High Cost Loans, but all consumer mortgage loans. A
lender who violates HOEPA may be sued by the consumer, who may be able to recover statutory and actual damages, court costs, and attorney’s fees. In addition, a violation of HOEPA may enable a consumer to rescind the loan for up to three years.

Page 240: High Cost Loans
Second paragraph, line 1

HOEPA provisions must be complied with after the triggers for a “high cost loan” have been met. A high cost loan (also known as a Section 32 loan), according to HOEPA,

Bullet Points: (replaced 3rd bullet)

A loan is a HOEPA High Cost Loan if:

- The original mortgage on the property, as the APR exceeds the value of the APOR Index (as of the loan lock-in date) by more than 6.5 percentage points.

- A second mortgage, as the APR exceeds the value of the APOR Index (as of the loan lock-in date) by more than 8.5 percentage points.

- The loan amount hits a loan limit threshold issued by the Bureau of Consumer Financial Protection. The adjusted total loan amount threshold for a high-cost loan in 2019 is $21,549. The adjusted points and fees dollar trigger for high-cost loan in 2019 is $1,077. when the total loan amount for a transaction is $21,549 or more, and the points and fees amount exceeds 5 percent of the total loan amount, the transaction is a high-cost loan. When the total loan amount for a transaction is less than $21,549, and the points and fees amount exceeds the lesser of the adjusted points and fees dollar trigger of $1,077 or 8 percent of the total loan amount, the transaction is a high-cost loan.

Page 243: Higher-Priced Mortgage Loans
Item 2., first line 3rd paragraph

2. 2.5% for a first lien jumbo loan (loan amount over $453,100 $484,350)

A loan originator may verify if a prospective loan is a high cost or higher-priced mortgage loan by determining the loan APR and entering the data at the FFIEC Rate Spread Calculator website...

Page 244: Prohibited Loan Terms
First bullet

- A payment schedule that provides for regular periodic payments that do not fully amortize and result in a balloon payment on HOEPA high cost loans having terms of less than five years, unless it is a bridge loan of less than one year used by consumers to buy or build a home.

Page 244-245: Prohibited Acts and Practices
First paragraph, 4th bullet

Additionally, according to Regulation Z [see 12 CFR, Part 1026, Truth in Lending – Regulation Z §1026.34(a) Prohibited acts or practices for high-cost mortgages loans], creditors granting loans meeting HOEPA criteria may not:

- Refinance a HOEPA high cost loan into another HOEPA high cost loan within the first 12 months of origination unless the new loan is in the borrower’s best interest. The prohibition also applies to assignees holding or servicing the loan.
Page 246: Escrow Account Restriction

Second paragraph

**Escrow Account** – The rule requires the originating lender to establish and maintain an escrow (impound) account for property taxes and insurance (hazard, flood, mortgage, etc.) *for a minimum of five years* [see 12 CFR, Part 1026, Truth in Lending – Regulation Z §1026.35(b)(3) Cancellation]. Unless creditors meet certain exemptions, the rule applies to all higher-priced mortgage loans as defined under HOEPA by TILA regulations [see https://www.federalregister.gov/articles/2013/01/22/2013-00734/escrow-requirements-under-the-truth-in-lending-act-regulation-z].

Page 255: Chapter Summary

Replaced with:

1. The Home Ownership and Equity Protection Act (HOEPA), a 1994 amendment to the Truth in Lending Act, establishes disclosure requirements and prohibits deceptive and unfair practices in lending. HOEPA also establishes requirements for loans with high interest rates and/or fees – termed High Cost Loans.

2. A loan is a High Cost Loan if: (1) The original mortgage on the property, as the APR exceeds the value of the APOR Index (as of the loan lock-in date) by more than 6.5 percentage points. (2) A second mortgage, as the APR exceeds the value of the APOR Index (as of the loan lock-in date) by more than 8.5 percentage points. (3) The loan amount hits a loan limit threshold issued by the Bureau of Consumer Financial Protection.

3. When a loan is determined to be a high cost loan, it must meet requirements set by Section 32 of HOEPA. For example, the borrower must receive a Section 32 disclosure three business days prior to executing loan documents for the transaction.

4. Higher-priced mortgage loans (HPML) are closed-end mortgage loans that are secured by the borrower’s principal dwelling. A higher-priced mortgage loan is defined as a loan where the APR of a mortgage loan exceeds the average prime offer rate by 1.5% for a first mortgage lien, 2.5% for a first lien jumbo loan or 3.5% for a subordinate mortgage lien. If the loan meets the standards of a higher-priced mortgage loan, the creditor must verify the borrower’s ability to repay the loan and an escrow/impound account must be established for a minimum of five years, according to TILA Section 35.

5. A loan originator may never be compensated for loan origination activities based on any other term other than the loan amount. The interest rate or program type of the loan must never be a basis for compensating an MLO. A creditor may compensate an MLO by contributing to a tax-advantage plan in an amount no greater than 10% of the MLO’s total gross income for the previous year.

Page 256: Quiz

Question stems revised:

3. A higher-priced mortgage loan is one that

7. Creditors must provide borrowers a copy of the appraisal used for their higher-priced mortgage loan _____ day(s) before loan closing.
Chapter 2

Page 49: Alimony, Child Support, and Maintenance, second paragraph
A copy of the divorce decree is generally sufficient to establish the amount and the enforceability of the required payments. To verify receipt of income, the borrower must verify child support payments either by six months of cancelled checks or three six month’s consecutive bank statements showing child support/alimony deposits.

Page 59: Down Payment, first paragraph and last paragraph
It must be determined that the borrower has sufficient liquid assets to make the cash down payment and pay the closing costs and other expenses incidental to the purchase of the property. Most loan programs require the borrower to bring at least 5% of the down payment from her personal savings history into the transaction.

[...]
Fannie Mae and Freddie Mac require a borrower to make at least a 5% down payment from her own funds in addition to the gift, unless the gift equals 20% or more of the purchase price. On conventional loans, a borrower can’t use borrowed funds or gifts for the first 5%. There are other special programs that will allow for a gift of the entire down payment, with special qualifications, such as the borrower/buyer being considered a first-time homebuyer.

Page 60: Verifying Deposits for Down Payment/Reserves, first paragraph
Documentation of assets includes one to two months of bank statements (all pages) to verify available funds.

Chapter 3

Page 79: Prepayment Clause
A prepayment clause in a contract gives the lender the right to charge the borrower a penalty for paying off the loan early, such as when refinancing a loan. An example might be a prepayment clause that calls for the debtor to pay an additional 3% 2% of the loan amount if more than 20% of the principal is repaid during the first five years of the loan. This type of clause may be seen in a conventional loan but is prohibited in Government (FHA, or VA, or USDA/RHS) loans.

Title XIV of Dodd-Frank prohibits prepayment penalties on residential mortgage loans other than fixed-rate qualified mortgages (Dodd-Frank Act §1414).

Chapter 4

Page 86: Conforming versus Nonconforming Loans, second paragraph
Remember that a borrower must typically qualify under both ratios. In addition, note that borrowers should have 5% of their own funds for a down payment and a minimum of two months of reserves on deposit.

Page 88: 90% Conventional Loan
For a 90% LTV loan, at least half of the required down payment (10% / 2 = 5%) must be made from personal cash reserves. The remainder of the down payment may be a gift from a family member, equity in other property traded to the seller, or credit for rent already paid under a lease/purchase.
Page 88: 80% to 95% Conventional Loan
A 95% LTV loan requires owner occupancy of the property and the down payment must be made from personal cash reserves without using secondary (owner) financing and/or allowable gifts funds.

Page 92: Secondary Financing, third paragraph
When underwriting a loan that will have secondary financing, the primary lender will include that payment as part of the borrower’s monthly housing expense and consider the total amount borrowed when determining the combined loan-to-value. The borrower must still make 5% minimum investment from his own funds when obtaining a conventional loan.

Page 93: Secondary Financing Conditions, first bullet
• Down Payment LTV and CLTV. The borrower must make a 5% down payment. The first mortgage cannot exceed 80% LTV and the CLTV cannot exceed 95%.

Chapter 4 Quiz, Question #5
5. When seeking an 80% conventional loan with the seller taking back a second mortgage, the buyer
A. can expect to pay a higher interest rate than with a 90% loan.
B. may choose which mortgage (first or second) will have lien priority.
C. must make at least a 5% down payment from personal funds.
D. must make at least a 20% down payment from personal funds.
E. Correct answer is C. – FNMA and FHLMC both require a 5% investment from the borrower’s own funds before any secondary financing or gift funds may be applied to the transaction.

Chapter 5

Page 102: 5.3B Apply Your Knowledge – (Part 2), rationale
FHA allows a maximum total debt-to-income ratio of 43% so $1,033.30 ÷ 0.43 = $2,403.02, the minimum monthly income needed. Remember, though, a borrower must qualify under both ratios so $2,403.02 - 2,582.74 is the minimum monthly income Mary would need to buy this home (barring other offsetting factors $800.65 ÷ 0.31).

Chapter 6

6.3 Apply Your Knowledge
The borrower is seeking a conventional loan but doesn’t want to pay more than 6.5% interest. The lender agrees to 6.5% interest based on three two discount points and a loan origination fee of 2%.

1. What is the total amount of points (in dollars and percentage) that the lender will receive for making this loan?

Points are based on the loan amount of $135,000 ($150,000 – $15,000 down payment). The lender is charging a total of 5 4 points, or 5 4% of the loan. Discount points total $4,050 $2,700 ($135,000 x .0302) and the loan origination fee is $2,700 ($135,000 x .02). The total the lender will receive in points is $6,750 5,400 ($4,050 $2,700 + $2,700).

2. If the seller agrees to pay the discount points, how much will the seller net from the transaction? (Assume the seller pays no other costs.)

The seller net is the sale price minus any seller-paid points, so the seller will net $145,950 $147,300 ($150,000 – $2,700 $4,050).
Changes to Correct or Revise Closing Disclosures

“The three-business-day waiting period requirement applies to a corrected Closing Disclosure that is provided when:

- There are changes to the loan’s APR outside accepted tolerances.
- There are changes to the loan product.
- A prepayment penalty is added.

[…] If there is a change in the APR that falls within accepted tolerances the APR will be deemed to be accurate. Changes that occur to the APR outside accepted tolerances on a closed-end transaction before consummation and therefore require a new three-business-day waiting period are either:

- For a Regular Transaction (generally a fixed rate loan) an APR change of +/- .125%, and
- For an Irregular Transaction (generally an adjustable rate loan) an APR change of +/- .250%.

In determining whether a transaction is considered regular or irregular both the first payment and the final payment are disregarded. Thereafter, a regular transaction is one that includes a single advance to the borrower with repayment of the loan in equal payments at regular intervals. An irregular transaction is one that includes one or more of the following features: multiple advances, irregular payment periods, or irregular payment amounts (other than an irregular first period or an irregular first or final payment).

In most cases, a fixed rate loan will be considered a regular transaction since the payments remain unchanged over the life of the loan. However, a fixed rate loan that has an interest only feature for a period of time or a graduated payment feature would have multiple payment levels and, thus, would be considered an irregular transaction. Similarly, an adjustable rate mortgage (ARM) generally has payments that change over the life of the loan and is therefore considered an irregular transaction in most cases. However, an ARM with an initial rate that equals the fully indexed rate would be disclosed as having a single payment level (ignoring the first and final payments) and, thus, would be considered a regular transaction.

For any other changes before consummation that do not fall under the categories above (i.e., related to the APR, loan product, or the addition of a prepayment penalty), the creditor still must provide a corrected Closing Disclosure with any terms or costs that have changed and ensure that the consumer receives it.

For these changes, there is no additional three-business-day waiting period required. The creditor must ensure only that the consumer receives the revised Closing Disclosure at or before consummation.

A consumer has the right to inspect the Closing Disclosure during the business day before consummation.

[For more information, see Regulation Z, 12 CFR § 1026.19 Certain Mortgage and Variable-Rate Transactions, 12 CFR § 1026.19(f)(2)(i) Charges Before Consummation Not Requiring a New Waiting Period, see also 12 CFR §1026.22(a)(2-3) Accuracy of Annual Percentage Rate.]

Changes that occur to the APR before consummation that require a new three-business-day waiting period include the disclosed APR on a closed-end transaction accurate: for either:

For BOTH Regular transactions (which include any single advance transaction with equal payments and equal payment periods, or an irregular first payment period and/or a first or last irregular payment) AND Irregular transactions (which include multiple advance transactions and other transactions not considered regular) if it is within one-eighth of one percentage point of the APR calculated under.
According to the TILA official interpretation, the term Irregular Transaction "... does not apply, however, to loans with variable rate features where the initial disclosures are based on a regular amortization schedule over the life of the loan, even though payments may later change because of the variable rate feature." [12 CFR § 1026.19(f)(2)(i) Charges Before Consummation Not Requiring a New Waiting Period, see also 12 CFR §1026.22(a)(2-3) Accuracy of Annual Percentage Rate.]

Irregular transactions (which include multiple advance transactions and other transactions not considered regular) if it is within one-quarter of one-percentage point of the APR calculated under. For any other changes before consummation that do not fall under the categories above (i.e., related to the APR, loan product, or the addition of a prepayment penalty), the creditor still must provide a corrected Closing Disclosure with any terms or costs that have changed and ensure that the consumer receives it. For these changes, there is no additional three-business-day waiting period required. The creditor must ensure only that the consumer receives the revised Closing Disclosure at or before consummation.

A consumer has the right to inspect the Closing Disclosure during the business day before consummation.

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Page 198: APR Accuracy and Redisclosure

According to the TILA official interpretation, the term Irregular Transaction "... does not apply, however, to loans with variable rate features where the initial disclosures are based on a regular amortization schedule over the life of the loan, even though payments may later change because of the variable rate feature." [12 CFR § 1026.19(f)(2)(i) Charges Before Consummation Not Requiring a New Waiting Period, see also 12 CFR §1026.22(a)(2-3) Accuracy of Annual Percentage Rate.]

Chapter 8

Page 235: National Do Not Call Registry, last two paragraphs

To keep from violating National Do Not Call regulations, a company must maintain national and internal lists of customers and prospects and keep them updated regularly. Both the national DNC list and the internal DNC list must be updated every 31 days, and records to document this must be maintained for 24 months, three months, and the internal DNC list must be updated every 30 days.

A consumer who receives a telemarketing call despite being on the registry is able to file a complaint with the FTC. Violators could be fined up to $16,000 per incident day, as each day, not each call, is considered a separate incident.

8.7 Knowledge Check, rationale

The National Do Not Call Registry regulations require companies to update their national customer lists every 30 days.

A. true
B. false

Correct answer is B. False - A company’s federal as well as their internal DNC lists must be updated every 31 days, three months, internal customer DNC lists must be updated every 30 days.

Chapter 15

Page 360: Updating or Recertifying an Appraisal, last paragraph

The appraisal must be re-certified if it will be 120 days or older as of the date of the promissory note, and a new appraisal is required after 180 days.
Final Exam 1

Question #1
1. Mary wants to obtain FHA-insured financing on her primary home. Her housing expense will be $800.65. She also has the following debt: $192.65 (auto payment) and $40 (revolving credit account). Based on her debt, what would Mary’s required stable monthly gross income be to qualify for an FHA loan using her total debt-to-income ratio?
   A. $1,601.68
   B. $2,403.02
   C. $2,582.74
   D. $3,333.62

Rationale: C. The FHA allows a maximum total debt-to-income ratio of 43%. $1,033.30 ÷ 0.43 = $2,403.02, the minimum monthly income needed. HOWEVER, she has to qualify for BOTH front end AND back end ratios. In this example, her front end is too high. She would therefore require ($800.65 ÷ .31 = $2,582.74/ month) in order to qualify for both ratios.

Question #17
An MLO realizes that his customer will not qualify for a loan, so he convinces her to apply using her mother’s identity and financial data. Even though the mother does not know that her information was used, she could be considered a
   A. co-mortgagor.
   B. mock purchaser.
   C. secret signer.
   D. straw buyer.

Answer: D. Rationale: A straw buyer is someone whose name and personal information is used to obtain a loan, in this case, for property in which she will not live. This is also occupancy fraud, defrauding a financial institution and potentially conspiracy.

Updates – 06.06.2018

Chapter 7

Quiz Question 3:
How many business days after closing loan consummation does the consumer have the right to rescind a refinance of his personal residence?

Updates – 05.17.2018

Final Exam 1

Question 20: Question has been replaced

20. A unique property, such as a geodesic home, being purchased as a primary residence would most logically employ what method of appraisal?
   a. cost approach
   b. income approach
   c. salability approach
   d. sales comparison approach
20. The Homeowner’s Protection Act requires a mortgage lender to cancel PMI when the loan-to-value reaches _____ of the original value and the borrower is current.
   A. 50%
   B. 62%
   C. 70%
   D. 78%

Final Exam 2

Question 7: Question has been replaced
7. The rule that bans providers of mortgage foreclosure rescue and loan modification services from collecting fees until homeowners have a written offer from their lender or servicer that they decide is acceptable is the
   A. 3/7/3 Rule.
   B. Loan Originator Compensation Rule.
   C. MARS Rule.
   D. Safeguards Rule.

7. All of the following are required continuing education topics under the SAFE Act with the EXCEPTION of
   A. ethics.
   B. federal mortgage laws.
   C. mortgage refinancing.
   D. nontraditional mortgage loans.

Question 12: Question has been replaced
12. Market value can best be defined as a property’s
   A. appraised value for property tax purposes.
   B. listing price.
   C. most probable selling price.
   D. most recent selling price.

12. If Martin sells his home five months after purchasing the property, the sale price must exceed Martin’s acquisition cost by more than to require a second appraisal.
   A. 10%
   B. 15%
   C. 20%
   D. 40%

Question 22: Question has been replaced
22. protects lenders (and sometimes property owners) against loss due to disputes over ownership of a property and defects in the title not found in the search of the public record.
   A. Flood insurance
   B. Property appraisals
   C. Property surveys
   D. Title insurance

22. Martha is self-employed and applies for a mortgage. To use her self-employment income, Martha must be able to provide tax returns for the previous
   A. 6 months.
   B. year.
   C. 18 months.
   D. 2 years.